

**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 29, 2023 AND DECEMBER 30, 2022**



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The report accompanying this deliverable was issued  
by Warren Averett, LLC.

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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 29, 2023 and December 30, 2022, 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 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 29, 2023 and December 30, 2022, 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 Matters***

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 29, 2023 and December 30, 2022, 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 opinions are not modified with respect to this matter.

As discussed in Note 2 to the financial statements, Southern Research Institute changed the manner in which it accounts for subscription-based information technology arrangements in 2023. Our opinions are 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 auditor's 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.

**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 55 through 56 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 15, 2024, 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 15, 2024

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

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**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

Southern Research Institute (the Organization) presents herein its financial statements as of December 29, 2023 and December 30, 2022, 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 29, 2023 and December 30, 2022, 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 December 31, 2022 through December 29, 2023 (2023) and January 1, 2022 through December 30, 2022 (2022).

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 for the enterprise fund: the statements of net position; the statements of revenues, expenses and changes in net position; 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 29, 2023 and December 30, 2022, is as follows:

	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>% Change</u>
Current assets	\$ 184,956,091	\$ 156,385,239	\$ 28,570,852	18%
Capital assets	52,024,132	23,871,745	28,152,387	118%
Other assets	4,564,146	32,658,762	(28,094,616)	(86%)
Deferred outflows	565,805	574,750	(8,945)	(2%)
Total assets and deferred outflows	<u>\$ 242,110,174</u>	<u>\$ 213,490,496</u>	<u>\$ 28,619,678</u>	13%
Current liabilities	\$ 52,885,136	\$ 20,706,548	\$ 32,178,588	155%
Non-current liabilities	8,715,198	9,735,796	(1,020,598)	(10%)
Deferred inflows	1,638,966	1,824,877	(185,911)	(10%)
Total liabilities and deferred inflows	<u>\$ 63,239,300</u>	<u>\$ 32,267,221</u>	<u>\$ 30,972,079</u>	96%
Net position:				
Net investment in capital assets	\$ 42,137,766	\$ 12,772,744	\$ 29,365,022	230%
Restricted:				
Expendable	13,940,441	12,805,171	1,135,270	9%
Unrestricted	122,792,667	155,645,360	(32,852,693)	(21%)
Total net position	<u>\$ 178,870,874</u>	<u>\$ 181,223,275</u>	<u>\$ (2,352,401)</u>	(1%)

Net position decreased from \$181.2 million at December 30, 2022, to \$178.9 million at December 29, 2023, a decrease of \$2.4 million. This decrease reflects the excess of expense over income for the year ended December 29, 2023.

Total assets and deferred outflows increased by approximately 13% during 2023, with current assets increasing by 18%, a 118% increase in capital assets, an 86% decrease in other assets, and a 2% decrease in deferred outflows. The change in current assets comprised:

- Investments (restricted and unrestricted), short-term and long-term, increased from \$83.8 million at December 30, 2022, to \$121.8 million at December 29, 2023, due to purchases, sales, write-downs of investments, and changing the terms of treasuries to match the spend plan for capital investments. Interest and dividend income reinvested totaled \$6.7 million, market gains totaled \$3.9 million and net transfers from operations were \$27.4 million.

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**STATEMENTS OF NET POSITION**

- Cash and cash equivalents decreased from \$89.8 million at the beginning of the year to \$48.6 million at year-end due to positive cash flows from operations of \$10.1 million, negative cash flows from noncapital financing activities of \$0.7 million, negative cash flows from capital and related financing activities of \$23.3 million and negative cash flows from investing activities of \$27.4 million.
- Accounts receivable decreased by 54%, with the 2023 year-end balance of \$5.1 million representing 49.1 days of sales outstanding for contract revenues compared to 78.1 days of sales outstanding for contract revenues at December 30, 2022. The decrease comprises a 71.1% decrease in billed accounts receivable driven by the timing of milestone payments under firm-fixed-price contracts and the sale of Engineering.
- A note receivable for \$659,000 was entered into with a customer during 2023. The note was fully reserved at December 29, 2023.
- Other receivables increased 809% from the December 30, 2022, balance of \$0.8 million, resulting principally from capital gifts and grants receivable of \$6.1 million.
- Prepayments and other current assets increased by 465% from December 30, 2022 to December 29, 2023, due to prepaid project costs of \$0.8 million, assets held for sale of \$1.5 million, and increased prepaid licenses, service and maintenance agreements.
- Noncurrent investments decreased by 94% by changing the terms of treasuries to match the spend plan for capital investments.
- 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 \$34.7 million in capital assets in 2023. After disposals and depreciation/amortization expense, net capital assets increased from the 2022 year-end balance of \$23.9 million to \$52.0 million at 2023 year-end.

Current liabilities increased by 155% during the year, and noncurrent liabilities decreased by 10%, from beginning balances of \$20.7 million and \$9.7 million, respectively.

The 157% net increase in total current liabilities comprised an 118% increase in accounts payable to a year-end balance of \$10 million, a 25% increase in accrued liabilities to a year-end balance of \$4.3 million and a 279% increase in unearned revenue from the beginning balance of \$9.7 million. The significant increase in accounts payable is a result of payables related to construction projects for the campus master plan. The increase in accrued liabilities is a result of the campus master plan as well, and accruals related to retainage at year end. Current maturities of long-term debt increased by 5% to a year-end balance of \$1.4 million due to escalating maturities of long-term debt.

Noncurrent liabilities decreased by \$1.0 million due to the decrease of long-term debt.

Restricted – expendable net position increased by \$1.1 million due to an increase in restricted cash and investments of \$0.9 million, an increase in net OPEB asset of \$0.1 million, a nominal change in deferred outflows – OPEB, and a decrease in deferred inflows – OPEB of \$0.2 million.

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**STATEMENTS OF NET POSITION**

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	\$ 156,385,239	\$ 63,093,016	\$ 93,292,223	148%
Capital assets	23,871,745	32,447,204	(8,575,459)	(26%)
Other assets	32,658,762	28,555,287	4,103,475	14%
Deferred outflows	574,750	174,529	400,221	229%
Total assets and deferred outflows	<u>\$ 213,490,496</u>	<u>\$ 124,270,036</u>	<u>\$ 89,220,460</u>	72%
Current liabilities	\$ 20,706,548	\$ 29,634,462	\$ (8,927,914)	(30%)
Non-current liabilities	9,735,796	585,318	9,150,478	1563%
Deferred inflows	1,824,877	1,960,536	(135,659)	(7%)
Total liabilities and deferred inflows	<u>\$ 32,267,221</u>	<u>\$ 32,180,316</u>	<u>\$ 86,905</u>	0%
Net position:				
Net investment in capital assets	\$ 12,772,744	\$ 18,818,321	\$ (6,045,577)	(32%)
Restricted:				
Expendable	12,805,171	13,576,035	(770,864)	(6%)
Unrestricted	155,645,360	59,695,364	95,949,996	161%
Total net position	<u>\$ 181,223,275</u>	<u>\$ 92,089,720</u>	<u>\$ 89,133,555</u>	97%

Net position increased from \$92.1 million at December 31, 2021, to \$181.2 million at December 30, 2022, an increase of \$89.1 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 72% during 2022, with a 148% increase in current assets, a 26% decrease in capital assets, a 14% increase in other assets, and a 229% increase in deferred outflows. The change in current assets comprised:

- Investments (restricted and unrestricted), short-term and long-term, increased from \$64.5 million at December 31, 2021, to \$83.8 million at December 30, 2022, due to interest and dividend income reinvested of \$1.3 million, market losses of \$4.2 million, changing the terms of treasuries to match the spend plan for capital investments, and net transfers from operations of \$18.3 million.
- Cash and cash equivalents increased from \$2.2 million at the beginning of the year to \$89.8 million at year-end due to net investing activities, including purchases of \$86.4 million of U.S. treasuries with maturities of fewer than 90 days at year-end.

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**STATEMENTS OF NET POSITION**

- 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 December 31, 2021, balance of \$0.5 million, resulting principally from the sale of the Engineering division.
- 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 \$23.9 million at 2022 year-end.

Current liabilities decreased by 30% during the year, and noncurrent liabilities increased by 1,563%, from beginning balances of \$29.6 million and \$0.6 million, respectively.

The 30% 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 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 and notes payable decreased by 77% to a year-end balance of \$1.4 million due to current maturities of long-term debt and payments of \$19.2 million.

Noncurrent liabilities increased by \$9.2 million due to the refinancing of long-term debt and the adoption of GASB 96.

Restricted – expendable net position decreased by \$771,000 million primarily due to a decrease in restricted cash and investments of \$1.8 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

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

of net position from one year to the next. 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 2023 and 2022 are as follows:

	<u>Year Ended</u> <u>2023</u>	<u>Year Ended</u> <u>2022</u>	<u>Change</u>	<u>%</u> <u>Change</u>
Operating revenues	\$ 38,816,139	\$ 52,947,171	\$ (14,131,032)	(27%)
Operating expenses	55,471,681	56,760,677	(1,288,996)	(2%)
Operating income (loss)	(16,655,542)	(3,813,506)	(12,842,036)	(337%)
Nonoperating revenues (expenses)	7,250,239	(3,022,518)	10,272,757	340%
Capital gifts and grants and special items	7,052,902	95,969,579	(88,916,677)	(93%)
Change in net position	(2,352,401)	89,133,555	(91,485,956)	(103%)
Net position at beginning of year	181,223,275	92,089,720	89,133,555	97%
Net position at end of year	<u>\$ 178,870,874</u>	<u>\$ 181,223,275</u>	<u>\$ (2,352,401)</u>	(1%)

Operating revenues in 2023 were 27% lower than the prior year, with revenues from sales to the U.S. Government generating 37% of the total in 2023 and 53% in 2022. Net intellectual property (IP) income decreased from 2022 to 2023 by 12% due to the net effect of a declining royalty stream for a product approaching its end of patent life. Declines in revenues are directly related to the sale of the Organization's Engineering division on May 23, 2022, and a decline in sales volume within business development.

Salaries, wages and employee benefits decreased nominally from 2022 to 2023. Year-end employee headcounts (full-time equivalents, FTE) for the Organization for 2023 and 2022 were 231 and 213, respectively. Average FTE headcounts for 2023 and 2022 were 239 and 259, respectively. Contract revenue per average FTE was approximately \$160,000 for 2023 and \$200,000 for 2022.

There was a 2% decline in expenditures for supplies and services from 2023 to 2022 which comprises an 18.3% decrease in directly related project expenditures and a 17.3% increase in non-labor overhead and general and administrative expenses.

There was a 22% increase in interest expense in 2023 due primarily to a higher interest rate for the bonds refinanced on September 1, 2022.

The increase in investment income in 2023 comprises unrealized gains on investments in 2023 of \$3.9 million versus unrealized losses on investments of \$4.2 million in 2022. Dividend and interest income was \$6.7 million in 2023 and \$1.3 million in 2022.

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Comparative statements of revenues, expenses and changes in net position for 2022 and 2021 are as follows:

	<u>Year Ended 2022</u>	<u>Year Ended 2021</u>	<u>Change</u>	<u>% Change</u>
Operating revenues	\$ 52,947,171	\$ 80,858,861	\$ (27,911,690)	(35%)
Operating expenses	<u>56,760,677</u>	<u>76,724,147</u>	<u>(19,963,470)</u>	(26%)
Operating income (loss)	(3,813,506)	4,134,714	(7,948,220)	(192%)
Nonoperating revenues (expenses)	(3,022,518)	5,610,684	(8,633,202)	(154%)
Capital gifts and grants and special items	<u>95,969,579</u>	<u>-</u>	<u>95,969,579</u>	100%
Change in net position	89,133,555	9,745,398	79,388,157	815%
Net position at beginning of year as previously reported	<u>92,089,720</u>	<u>82,344,322</u>	<u>9,745,398</u>	12%
Net position at end of year	<u>\$ 181,223,275</u>	<u>\$ 92,089,720</u>	<u>\$ 89,133,555</u>	97%

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.

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

There was a 22% decline in expenditures for supplies and services from 2021 to 2022 which comprises a 31% decrease in directly related project expenditures and a 9% 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.

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 gifts and grants and special items comprises two transactions occurring during the year ended December 30, 2022. The Organization sold an operating division during 2022 and as a result, realized a gain of \$50.1 million. 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.

**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**  
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**DECEMBER 29, 2023 AND DECEMBER 30, 2022**

**STATEMENTS OF CASH FLOWS**

Summary cash flows for 2023 and 2022 are as follows:

	<u>Year Ended 2023</u>	<u>Year Ended 2022</u>	<u>Change</u>	<u>% Change</u>
Cash flows from operating activities	\$ 10,112,409	\$ (537,154)	\$ 10,649,563	1983%
Cash flows from noncapital financing activities	(662,041)	1,768,791	(2,430,832)	(137%)
Cash flows from capital and related financing activities	(23,311,163)	104,727,421	(128,038,584)	(122%)
Cash flows from investing activities	(27,398,129)	(18,336,820)	(9,061,309)	(49%)
Net change in cash and cash equivalents	(41,258,924)	87,622,238	(128,881,162)	(147%)
Cash and cash equivalents at beginning of year	89,840,930	2,218,692	87,622,238	3949%
Cash and cash equivalents at end of year	<u>\$ 48,582,006</u>	<u>\$ 89,840,930</u>	<u>\$ (41,258,924)</u>	(46%)

The significant differences in cash flows in 2023 versus 2022 are:

Operating activities:

- Cash collected from contract revenues increased by \$8.7 million, or 18%, higher than the decrease in accounts receivable.
- Cash collected from intellectual property (IP) income decreased by 30%, greater than the 12% decrease in accrual-based IP income.
- Payments to employees decreased by \$1.5 million in 2023 mainly due to the net effect of decreased average FTEs and merit and market salary increases. 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 \$.9 million with a \$2.3 million decrease in payments for project related expenses along with a \$1.4 million increase in indirect expenses.

Noncapital financing activities:

- Noncapital financing activities decreased to \$(0.7) million due primarily to decreased usage of the Organization's line of credit.

Capital and related financing activities:

- Purchases of capital assets increased from \$6.8 million in 2022 to \$34.7 million in 2023.
- Principal and interest payments on long-term debt were \$1.5 million in 2023 and \$14.4 million in 2022.
- Proceeds from the sale of the Organization's Engineering division yielded a net of \$71.2 million in proceeds in 2022.

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**STATEMENTS OF CASH FLOWS**

Investing activities:

- Purchases of investments increased from \$141.1 million in 2022 to \$442.5 million in 2023, and proceeds from sales of investments increased from \$121.5 million in 2022 to \$408.4 million in 2023. 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 million from the state of Alabama. Net proceeds from sales and purchases of investments for 2023 were funded by a state operating appropriation of \$20 million from the State of Alabama ARPA funds and capital grants from the State of Alabama and Jefferson County totaling \$13.0 million, net of transfers to cash to fund capital expenditures and a decline in current maturities of treasuries due to laddering of the maturities to match the planned capital spend.
- Interest and dividend income was approximately \$6.7 million in 2023 and \$1.3 million in 2022.

Summary cash flows for 2022 and 2021 are as follows:

	<b>Year Ended 2022</b>	<b>Year Ended 2021</b>	<b>Change</b>	<b>% Change</b>
Cash flows from operating activities	\$ (537,154)	\$ 5,846,028	\$ (6,383,182)	(109%)
Cash flows from noncapital financing activities	1,768,791	(7,550,381)	9,319,172	123%
Cash flows from capital and related financing activities	104,727,421	12,521,816	92,205,605	736%
Cash flows from investing activities	(18,336,820)	(24,444,799)	6,107,979	25%
Net change in cash and cash equivalents	87,622,238	(13,627,336)	101,249,574	743%
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>\$ 89,840,930</u>	<u>\$ 2,218,692</u>	<u>\$ 87,622,238</u>	3949%

**SOUTHERN RESEARCH INSTITUTE  
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## **STATEMENTS OF CASH FLOWS**

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 \$11.4 million with a \$5.6 million decrease in payments for project related expenses along with a \$5.8 million decrease in indirect expenses.

### Noncapital financing activities:

- Noncapital financing activities increased to \$1.8 million due primarily to proceeds from short-term borrowing.

### Capital and related financing activities:

- Purchases of capital assets increased from \$3.2 million in 2021 to \$6.8 million in 2022.
- Principal and interest payments on long-term debt were \$14.4 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.
- Capital gifts and grants comprised \$45 million from the State of Alabama House Bill 138.

### Investing activities:

- Purchases of investments increased from \$25.7 million in 2021 to \$141.1 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.

## **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, 2023, capital expenditure commitments were approximately \$83.8 million.

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital assets include land, buildings, equipment and intangibles, such as patent costs and Right of Use assets-SBITAs. As shown on the statements of cash flows, in 2023 the Organization invested approximately \$34.7 million in capital assets.

The long-term debt at December 29, 2023 and December 30, 2022, was related to a \$20.0 million Recovery Zone Facility Bond issued on August 30, 2010, and refinanced on September 1, 2022, \$120 thousand in SBITA obligations and various leases totaling approximately \$30 thousand at year-end.

During 2023 and 2022, the Organization made long-term debt payments of \$1.2 million and \$14.2 million, respectively, with 2023 payments comprising \$0.7 million related to the Recovery Zone Facility Bond and the balance related to lease payments.

## **FINANCIAL STATEMENTS**

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**STATEMENTS OF NET POSITION – ENTERPRISE FUND**  
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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

<b>CURRENT ASSETS</b>	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 48,582,006	\$ 89,840,930
Investments	107,575,971	42,280,379
Restricted cash and investments	12,338,096	11,471,250
Accounts receivable, net	5,104,599	11,099,935
Other receivables	7,626,435	838,735
Materials and supplies, net	128,103	216,277
Prepayments and other current assets	3,600,881	637,733
Total current assets	184,956,091	156,385,239
 <b>NONCURRENT ASSETS</b>		
Net OPEB asset (See Note 13)	2,675,506	2,584,048
Investments, long-term	1,888,640	30,074,714
Capital assets:		
Land and improvements	3,612,802	4,037,692
Buildings and major plant equipment	30,723,916	34,602,876
Laboratory equipment and fixtures	36,533,320	40,976,551
Office furniture and equipment	2,122,920	3,058,558
Intangible assets, net	1,905,197	1,808,088
Right of use assets - SBITAs	2,385,532	2,206,277
	77,283,687	86,690,042
Less accumulated depreciation	59,245,439	67,351,207
	18,038,248	19,338,835
Construction-in-progress	33,985,884	4,532,910
Total capital assets, net	52,024,132	23,871,745
Total noncurrent assets	56,588,278	56,530,507
<b>TOTAL ASSETS</b>	<b>241,544,369</b>	<b>212,915,746</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - OPEB	565,805	574,750
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 242,110,174</b>	<b>\$ 213,490,496</b>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF NET POSITION – ENTERPRISE FUND**  
**DECEMBER 29, 2023 AND DECEMBER 30, 2022**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

<b>CURRENT LIABILITIES</b>	<u><b>2023</b></u>	<u><b>2022</b></u>
Accounts payable	\$ 10,039,299	\$ 4,615,663
Accrued liabilities	4,277,903	3,431,282
Unearned revenue	36,577,141	9,656,534
Current maturities of long-term debt	1,171,168	1,363,205
Note payable	819,625	1,639,864
Total current liabilities	<u>52,885,136</u>	<u>20,706,548</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt	<u>8,715,198</u>	<u>9,735,796</u>
<b>TOTAL LIABILITIES</b>	<u>61,600,334</u>	<u>30,442,344</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - OPEB	<u>1,638,966</u>	<u>1,824,877</u>
<b>NET POSITION</b>		
Net investment in capital assets	42,137,766	12,772,744
Restricted:		
Expendable	13,940,441	12,805,171
Unrestricted	<u>122,792,667</u>	<u>155,645,360</u>
Total net position	<u>178,870,874</u>	<u>181,223,275</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 242,110,174</u></u>	<u><u>\$ 213,490,496</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 REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION – ENTERPRISE FUND**  
**FOR THE YEARS ENDED DECEMBER 29, 2023 AND DECEMBER 30, 2022**

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>		
Contract revenues	\$ 37,890,045	\$ 51,891,496
Intellectual property revenues, net of direct expenses	926,094	1,055,675
Total operating revenues	<u>38,816,139</u>	<u>52,947,171</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	28,673,775	28,713,097
Supplies and services	23,385,057	23,758,805
Depreciation and amortization	3,412,849	4,288,775
Total operating expenses	<u>55,471,681</u>	<u>56,760,677</u>
<b>OPERATING LOSS</b>	<u>(16,655,542)</u>	<u>(3,813,506)</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Contributions	158,198	128,927
Investment income (loss)	10,578,231	(2,887,977)
Interest expense	(320,846)	(263,468)
Gain (loss) on disposal and impairment of assets	<u>(3,165,344)</u>	<u>-</u>
<b>LOSS BEFORE CAPITAL GIFTS AND GRANTS AND SPECIAL ITEMS</b>	<u>(9,405,303)</u>	<u>(6,836,024)</u>
Capital gifts and grants	7,100,000	45,000,000
(Loss) gain on discontinued operations	(47,098)	50,141,782
Adjustment to OPEB calculation (as restated, See Notes 2 and 13)	<u>-</u>	<u>827,797</u>
<b>CHANGE IN NET POSITION</b>	<u>(2,352,401)</u>	<u>89,133,555</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>181,223,275</u>	<u>92,089,720</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 178,870,874</u></u>	<u><u>\$ 181,223,275</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 29, 2023 AND DECEMBER 30, 2022**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2023</b>	<b>2022</b>
Grants and contracts	\$ 57,444,405	\$ 48,704,158
Intellectual property revenues	1,240,677	1,769,689
Payments to employees and related benefits	(29,308,507)	(30,847,909)
Payments to suppliers	<u>(19,264,166)</u>	<u>(20,163,092)</u>
Net cash provided (used) by operating activities	<u>10,112,409</u>	<u>(537,154)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions	158,198	128,927
Net change in note payable	<u>(820,239)</u>	<u>1,639,864</u>
Net cash provided (used) by noncapital financing activities	<u>(662,041)</u>	<u>1,768,791</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(34,714,358)	(6,764,065)
Principal payments on SBITAs and long-term debt	(1,212,635)	(14,155,132)
Proceeds from long-term debt	-	9,678,514
Interest payments on long-term debt	(320,846)	(259,730)
Capital gifts and grants	13,000,000	45,000,000
Post-sale expenses from sale of capital assets	(16,226)	-
Proceeds from (payments for) discontinued operations	<u>(47,098)</u>	<u>71,227,834</u>
Net cash (used) provided by capital and related financing activities	<u>(23,311,163)</u>	<u>104,727,421</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	408,381,870	121,478,913
Purchases of investments	(442,505,822)	(141,115,687)
Interest on cash	1,432	424
Interest and dividend income on investments	<u>6,724,391</u>	<u>1,299,530</u>
Net cash used in investing activities	<u>(27,398,129)</u>	<u>(18,336,820)</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 29, 2023 AND DECEMBER 30, 2022**

	<u>2023</u>	<u>2022</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ (41,258,924)	\$ 87,622,238
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>89,840,930</u>	<u>2,218,692</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 48,582,006</u>	<u>\$ 89,840,930</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (16,655,542)	\$ (3,813,506)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,412,849	4,288,775
Noncash adjustment of postretirement benefits	(268,424)	(238,565)
Change in accounts receivable, net	4,619,936	(3,049,926)
Change in other receivables	687,700	175,690
Change in materials and supplies, net	88,174	121,598
Change in prepayments and other current assets	(2,963,148)	(122,713)
Change in accounts payable	5,423,636	3,375,796
Change in accrued liabilities	846,621	(1,220,396)
Change in unearned contract revenue	<u>14,920,607</u>	<u>(53,907)</u>
Net cash provided (used) by operating activities	<u>\$ 10,112,409</u>	<u>\$ (537,154)</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Change in fair value of investments	<u>\$ 3,852,408</u>	<u>\$ (4,187,931)</u>
Contributed stock from disposal of operations	<u>\$ -</u>	<u>\$ 5,000,000</u>
Capital assets acquired through SBITAs	<u>\$ 179,254</u>	<u>\$ 308,871</u>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE – VEBA TRUST FUND  
STATEMENTS OF FIDUCIARY NET POSITION – OPEB TRUST FUND  
FOR THE YEARS ENDED DECEMBER 29, 2023 AND DECEMBER 30, 2022**

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**ASSETS**

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 7,252	\$ 1,037
Investments, at fair value	<u>4,194,947</u>	<u>3,795,333</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,202,199</u>	<u>\$ 3,796,370</u>

**LIABILITIES AND NET POSITION**

<b>NET POSITION RESTRICTED FOR OPEB</b>	<u>\$ 4,202,199</u>	<u>\$ 3,796,370</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 29, 2023 AND DECEMBER 30, 2022**

	<u>2023</u>	<u>2022</u>
<b>ADDITIONS</b>		
Increase (decrease) in fair value of investments	\$ 280,214	\$ (470,346)
Dividends and interest	131,239	105,498
Total additions	<u>411,453</u>	<u>(364,848)</u>
<b>DEDUCTIONS</b>		
Administrative expenses	<u>5,624</u>	<u>7,188</u>
Total deductions	<u>5,624</u>	<u>7,188</u>
<b>NET INCREASE (DECREASE)</b>	405,829	(372,036)
<b>NET POSITION RESTRICTED FOR OPEB AT BEGINNING OF YEAR</b>	<u>3,796,370</u>	<u>4,168,406</u>
<b>NET POSITION RESTRICTED FOR OPEB AT END OF YEAR</b>	<u>\$ 4,202,199</u>	<u>\$ 3,796,370</u>

See notes to the financial statements.

**SOUTHERN RESEARCH INSTITUTE  
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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 29, 2023 AND DECEMBER 30, 2022**

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## **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 (UABOT).

For financial reporting purposes, the Organization is a component unit of UABOT. 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, 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, UABOT 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.

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

- **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 December 31, 2022 through December 29, 2023 (2023), and January 1, 2022 through December 30, 2022 (2022).

### **Restatements**

During fiscal year 2023, the Organization adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA), which is a contract that conveys control of the right to use another party's information technology software. The statement requires a government to recognize a right-to-use subscription asset and a corresponding subscription liability. The adoption of GASB Statement No. 96 has been reflected at the beginning of the earliest period presented in the financial statements, or January 1, 2022, resulting in an increase (decrease) to line items within the Organization's 2022 financial statements.

The actuarial calculation of the net OPEB asset (see Note 13) at December 30, 2022, was based on demographic data that was not updated to reflect the disposal of operations that occurred during the year ended December 30, 2022. As a result, the OPEB calculation was updated and the change has been reflected during the year ended December 30, 2022, resulting in a change to line items within the Organization's 2022 financial statements.

The impact of these changes on the 2022 financial statements is summarized below:

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**2. SIGNIFICANT ACCOUNTING POLICIES**

	<u>As Previously Reported</u>	<u>Effect of Adoption of GASB 96</u>	<u>Effect of Adjustment to OPEB Calculation</u>	<u>As Restated</u>
<b>Statement of Net Position</b>				
Prepayments and other current assets	\$ 791,055	\$ (153,322)	\$ -	\$ 637,733
Total current assets	186,613,275	(153,322)	-	186,459,953
Net OPEB asset	1,756,251	-	827,797	2,584,048
Capital assets, net	22,235,369	1,636,376	-	23,871,745
Total noncurrent assets	23,991,620	1,636,376	827,797	26,455,793
Total assets	210,604,895	1,483,054	827,797	212,915,746
Current maturities of long-term debt	798,387	564,818	-	1,363,205
Total current liabilities	20,141,730	564,818	-	20,706,548
Long-term debt, noncurrent	8,778,514	957,282	-	9,735,796
Total liabilities	28,920,244	1,522,100	-	30,442,344
Net investment in capital assets	12,658,468	114,276	-	12,772,744
Restricted	11,977,374	-	827,797	12,805,171
Unrestricted	155,798,682	(153,322)	-	155,645,360
Total net position	180,434,524	(39,046)	827,797	181,223,275
<b>Statement of Revenue, Expenses and Changes in Net Position</b>				
Supplies and services	\$ 24,181,572	\$ (422,767)	\$ -	\$ 23,758,805
Depreciation and amortization	3,828,831	459,944	-	4,288,775
Total operating expenses	56,723,500	37,177	-	56,760,677
Operating loss	(3,776,329)	(37,177)	-	(3,813,506)
Interest expense	(261,599)	(1,869)	-	(263,468)
Total nonoperating revenues	(3,020,649)	(1,869)	-	(263,468)
Loss before other changes in net position	(6,796,978)	(39,046)	-	(6,836,024)
Capital gifts and grants and special items				
OPEB Adjustment	-	-	827,797	827,797
Change in net position	88,344,804	(39,046)	827,797	89,133,555
<b>Statement of Cash Flows</b>				
Payment to suppliers	\$ (20,585,859)	\$ 422,767	\$ -	\$ (20,163,092)
Net cash used in operating activities	(959,921)	422,767	-	(537,154)
Principal payments on long-term debt	(13,730,496)	(424,636)	-	(14,155,132)
Interest payments on long-term debt	(261,599)	1,869	-	(259,730)
Net cash provided by capital and related financing activities	105,150,188	(422,767)	-	104,727,421
Operating loss	(3,776,329)	(37,177)	-	(3,813,506)
Depreciation and amortization	3,828,831	459,944	-	4,288,775
Net cash used in operating activities	(959,921)	422,767	-	(537,154)
Capital assets acquired through SBITAs	-	308,871	-	308,871

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have not been labeled as restated due to changes not having a material impact.

### **Cash and 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 2023 and 2022.

### **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
Right of use assets – SBITA	1 - 5 years

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

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **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.

### **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 2023 and 2022, 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.

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

The Organization has received donations with stipulations on how the funds should be used. 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 29, 2023 and December 30, 2022, of \$12,338,096 and \$11,471,250, respectively. The Organization has restricted expendable net position related to deferred outflows – OPEB of \$565,805 and \$574,750 at December 29, 2023 and December 30, 2022, respectively. The Organization has restricted expendable net position related to deferred inflows – OPEB of \$1,638,966 and \$1,824,877 at December 29, 2023 and December 30, 2022, respectively. In addition, the Organization's net OPEB asset at December 29, 2023 and December 30, 2022, of \$2,675,506 and \$2,584,048, 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.

### **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.

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 37% of the Organization's contract revenues in 2023 and 42% in 2022.

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Capital Gifts and Grants**

During 2023, the Organization met commitments for capital projects, recognizing income of \$4.1 million from the State of Alabama and \$3.0 million from a research development partner. 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 \$15,605,000 and \$14,455,000 at December 29, 2023 and December 30, 2022, respectively. The Organization received approximately \$144,000 and \$157,000 from the Trust for the years ended December 29, 2023 and December 30, 2022, 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.

### **Independent Research and Development Costs**

Independent research and development (IR&D) is conducted by the Organization under internal projects. IR&D costs incurred were \$63,044 and \$284,914 in 2023 and 2022, 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).

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

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.

### **Reclassifications**

Certain reclassifications have been made in the prior year amounts to conform to the current year financial statement presentation.

### **Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through May 15, 2024, which is the date the financial statements were issued.

## **3. CASH AND CASH EQUIVALENTS**

The carrying amount of cash balances at December 29, 2023, totaled \$608,939 (\$3,430,068 for 2022), and the bank balance was \$857,969 (\$4,003,785 for 2022). The bank balances were insured up to \$500,000 at December 29, 2023, and \$275,082 at December 30, 2022. Cash equivalents at December 29, 2023 totaled \$47,973,067 (\$86,410,862 at December 30, 2022), comprising primarily money market funds and treasury bills maturing in less than 90 days after the year-end. Cash equivalents at both year-ends were insured up to \$500,000. 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.

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**4. INVESTMENTS**

**Unrestricted Investments**

As of December 29, 2023, the Organization had unrestricted investments in equity mutual funds totaling \$4,633,175 and the following unrestricted cash and fixed-income investments with the maturities indicated:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Treasury securities	\$ 41,790,513	\$ 41,790,513	\$ -	\$ -	\$ -
Mutual funds – bonds	63,040,923	61,152,283	1,888,640	-	-
	<u>\$ 104,831,436</u>	<u>\$ 102,942,796</u>	<u>\$ 1,888,640</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Unrestricted Investments**

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

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Mutual funds – bonds	\$ 64,531,550	\$ 34,456,836	\$ 30,074,714	\$ -	\$ -
	<u>\$ 64,531,550</u>	<u>\$ 34,456,836</u>	<u>\$ 30,074,714</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Restricted Cash and Investments (Endowment)**

As of December 29, 2023, the Organization had restricted investments in equity mutual funds totaling \$8,058,448 and the following restricted cash and fixed-income investments with the maturities indicated:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 13,443	\$ 13,443	\$ -	\$ -	\$ -
Mutual funds – bonds	4,266,205	3,615,808	650,397	-	-
	<u>\$ 4,279,648</u>	<u>\$ 3,629,251</u>	<u>\$ 650,397</u>	<u>\$ -</u>	<u>\$ -</u>

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

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**4. INVESTMENTS**

**Restricted Cash and Investments (Endowment)**

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 with the maturities indicated:

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

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 29, 2023 and December 30, 2022, 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.

*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 29, 2023, the Organization had uncollateralized restricted cash and investments with Fidelity Investments (Fidelity) of \$12,338,096 (Endowment) and unrestricted cash and investments with Fidelity of \$157,432,679. 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).

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 2023. The fund was estimated to have no value at December 29, 2023.

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#### **4. INVESTMENTS**

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 December 30, 2022. The shares were sold in 2023.

Private company stock of approximately zero and \$27,000 was held as of December 29, 2023 and December 30, 2022, respectively.

##### ***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:

*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.

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**4. INVESTMENTS**

The following fair value hierarchy table presents information about the Organization's investments measured at fair value as of December 29, 2023:

	<b>Fair Value Measurement at Report Date Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Investment Securities:				
Equity:				
Equity mutual funds:				
Large and mid-cap	\$ 7,108,856	\$ 7,108,856	\$ -	\$ -
International	3,959,582	3,959,582	-	-
Real estate	753,110	753,110	-	-
Utilities	870,074	870,074	-	-
Fixed Income:				
Bond mutual funds:				
Short-term	60,190,038	60,190,038	-	-
International	7,117,090	7,117,090	-	-
U.S. Treasuries	41,790,514	41,790,514	-	-
<b>Total investments</b>	<b>\$ 121,789,264</b>	<b>\$ 121,789,264</b>	<b>\$ -</b>	<b>\$ -</b>

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**4. INVESTMENTS**

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

	<b>Fair Value Measurement at Report Date Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Investment Securities:				
Equity:				
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	-	-
Fixed Income:				
Bond mutual funds:				
Short-term	62,111,965	62,111,965	-	-
International	6,528,338	6,528,338	-	-
Privately held investments	3,816,346	-	-	3,816,346
Total investments	<u>\$ 83,823,050</u>	<u>\$ 80,006,704</u>	<u>\$ -</u>	<u>\$ 3,816,346</u>

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**5. ACCOUNTS RECEIVABLE**

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

	<u>2023</u>	<u>2022</u>
Billed	\$ 2,008,606	\$ 8,070,545
Unbilled	3,260,610	3,272,073
	5,269,216	11,342,618
Less allowances	(164,617)	(242,683)
	<u>\$ 5,104,599</u>	<u>\$ 11,099,935</u>

**6. NOTE RECEIVABLE**

On December 1, 2023, the Organization entered into a \$659,000 note agreement with a customer. The note will accrue interest on any unpaid principal at a rate of 8.5%. The principal amount, together with all accrued unpaid interest is due to the Organization no later than May 1, 2025. The note is fully reserved at December 29, 2023.

**7. OTHER RECEIVABLES**

At December 29, 2023 and December 30, 2022, other receivables consisted primarily of amounts due from the licensing of intellectual property (IP), and approximately \$6.9 million of capital gifts and grants receivable at December 29, 2023. 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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**8. CAPITAL ASSETS**

Capital assets activity for the year ended December 29, 2023, is summarized below:

	<b>Balance at December 30, 2022</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements/ Reimburse- ments</b>	<b>Balance at December 29, 2023</b>
Land	\$ 2,918,352	\$ -	\$ -	\$ -	\$ 2,918,352
Construction-in-progress	4,532,910	31,363,266	(721,724)	(1,188,568)	33,985,884
	7,451,262	31,363,266	(721,724)	(1,188,568)	36,904,236
Capital assets being depreciated:					
Land improvements	1,119,340	-	-	(424,890)	694,450
Buildings and major plant equipment	34,602,876	205,000	985,564	(5,069,524)	30,723,916
Laboratory equipment and fixtures	40,976,551	2,036,882	(368,445)	(6,111,668)	36,533,320
Office furniture and equipment	3,058,558	93,318	104,605	(1,133,561)	2,122,920
Right of use assets - SBITAs	2,206,277	179,255	-	-	2,385,532
	81,963,602	2,514,455	721,724	(12,739,643)	72,460,138
	89,414,864	33,877,721	-	(13,928,211)	109,364,374
Less accumulated depreciation	(67,351,207)	(3,235,290)	-	11,341,058	(59,245,439)
	22,063,657	30,642,431	-	(2,587,153)	50,118,935
Intangibles	2,779,702	836,637	-	(927,182)	2,689,157
Less accumulated amortization	(971,614)	(177,559)	-	365,213	(783,960)
	1,808,088	659,078	-	(561,969)	1,905,197
	<u>\$ 23,871,745</u>	<u>\$ 31,301,509</u>	<u>\$ -</u>	<u>\$ (3,149,122)</u>	<u>\$ 52,024,132</u>

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**8. CAPITAL ASSETS**

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

	<b>Balance at December 31, 2021</b>	<b>Additions</b>	<b>Transfers</b>	<b>Retirements/ Reimburse- ments</b>	<b>Balance at December 30, 2022</b>
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
	4,599,892	4,306,079	(946,501)	(508,208)	7,451,262
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
Right of use assets - SBITAs	1,897,406	308,871			2,206,277
	112,688,853	2,290,477	946,501	(33,962,229)	81,963,602
	117,288,745	6,596,556	-	(34,470,437)	89,414,864
Less accumulated depreciation	(85,047,276)	(4,177,486)	-	21,873,555	(67,351,207)
	32,241,469	2,419,070	-	(12,596,882)	22,063,657
Intangibles	3,139,984	476,380	-	(836,662)	2,779,702
Less accumulated amortization	(1,036,843)	(221,246)	-	286,475	(971,614)
	2,103,141	255,134	-	(550,187)	1,808,088
	<u>\$ 34,344,610</u>	<u>\$ 2,674,204</u>	<u>\$ -</u>	<u>\$ (13,147,069)</u>	<u>\$ 23,871,745</u>

Depreciation expense for the years ended December 29, 2023 and December 30, 2022, was \$2,634,331 and \$3,607,585, respectively.

Amortization expense for the years ended December 29, 2023 and December 30, 2022, was \$778,518 and \$681,190, respectively.

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**9. ACCRUED LIABILITIES**

Accrued liabilities are summarized as follows at year-end:

	<u>2023</u>	<u>2022</u>
Payroll related payables	\$ 1,733,773	\$ 1,850,269
Intellectual property awards accrual	512,213	502,790
Healthcare obligations	186,800	182,000
Other accrued expenses	1,845,117	896,223
	<u>\$ 4,277,903</u>	<u>\$ 3,431,282</u>

**10. 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>2023</u>	<u>2022</u>
Beginning of the year accrual	\$ 182,000	\$ 225,700
Claims expense	2,135,307	1,804,197
Claims paid	<u>(2,130,507)</u>	<u>(1,847,897)</u>
	<u>\$ 186,800</u>	<u>\$ 182,000</u>

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**11. 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 2023 and 2022. In the event of a default on the obligation, the lender may exercise rights and remedies available under the credit agreement or applicable laws.

Long-term debt activity for the year ended December 29, 2023, is summarized as follows:

	<b>Balance at December 30, 2022</b>	<b>Additions</b>	<b>Payments/ Reductions</b>	<b>Balance at December 29, 2023</b>	<b>Due Within One Year</b>
Lease obligations	\$ 78,387	\$ -	\$ (48,185)	\$ 30,202	\$ 30,202
Recovery Zone Facility Bonds held by Regions Capital Advantage, fixed interest rate (3.05%) for five-year term starting September 22, 2027	9,498,514	-	(720,000)	8,778,514	780,000
SBITA Obligations, 1.57% to 4.59% due annually through 2027	1,522,100	179,255	(623,705)	1,077,650	360,966
	<u>\$ 11,099,001</u>	<u>\$ 179,255</u>	<u>\$ (1,391,890)</u>	<u>\$ 9,886,366</u>	<u>\$ 1,171,168</u>

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**11. LONG-TERM DEBT**

Long-term debt 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>
Lease obligations	\$ 1,018,883	\$ -	\$ (940,496)	\$ 78,387	\$ 78,387
Recovery Zone Facility Bonds held by Regions Capital Advantage, fixed interest rate (2.06%) for five-year term starting September 22, 2017	12,610,000	9,678,514	(12,790,000)	9,498,514	720,000
SBITA Obligations, 1.57% to 4.59% due annually through 2027	1,778,047	308,871	(564,818)	1,522,100	564,818
	<u>\$ 15,406,930</u>	<u>\$ 9,987,385</u>	<u>\$ (14,295,314)</u>	<u>\$ 11,099,001</u>	<u>\$ 1,363,205</u>

Maturities of long-term debt after 2023 are as follows:

<b>Business-Type Activities Recovery Zone Facility Bonds</b>			
<u>Maturing</u>	<u>Rate</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
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
		<u>\$ 8,778,514</u>	<u>\$ 846,616</u>

<b>Business-Type Activities Notes from Direct Borrowings</b>			
<u>Maturing</u>	<u>Rates</u>	<u>Amount of Maturity</u>	<u>Amount of Interest</u>
2024	4.55%	\$ 30,202	\$ 1,090
		<u>\$ 30,202</u>	<u>\$ 1,090</u>

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**11. LONG-TERM DEBT**

	<b>SBITA Obligations</b>		
	Principal	Interest	Total
2024	\$ 348,460	\$ 12,506	\$ 360,966
2025	396,765	8,488	405,253
2026	272,457	2,897	275,354
2027	35,550	527	36,077
	\$ 1,053,232	\$ 24,418	\$ 1,077,650

The Organization incurred interest expense of \$320,846 and \$263,468 during 2023 and 2022, respectively.

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**12. 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 30, 2022, the outstanding balance of the note payable was \$1,639,864. The Organization renewed the agreement on December 15, 2023, with a maturity of December 31, 2024. As of December 29, 2023, the outstanding balance of the note payable was \$819,625.

Note payable activity for the year ended December 29, 2023, is summarized as follows:

	<b>Balance at December 30, 2022</b>	<b>Additions</b>	<b>Payments/ Reductions</b>	<b>Balance at December 29, 2023</b>	<b>Due Within One Year</b>
Note payable	\$ 1,639,864	\$ 5,647,504	\$ (6,467,743)	\$ 819,625	\$ 819,625
	<u>\$ 1,639,864</u>	<u>\$ 5,647,504</u>	<u>\$ (6,467,743)</u>	<u>\$ 819,625</u>	<u>\$ 819,625</u>

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

	<b>Balance at December 31, 2021</b>	<b>Additions</b>	<b>Payments/ Reductions</b>	<b>Balance at December 30, 2022</b>	<b>Due Within One Year</b>
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>

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**13. 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><b>Date of Hire</b></u>	<u><b>Minimum Age and Service</b></u>
January 1, 2014, and after	59.5 with 10 years continuous service; spousal coverage five years maximum
January 9, 2006 - December 31, 2013	55 with 10 or more years continuous service; spousal coverage 10 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, 2023, the most recent actuarial valuation date, the Plan had 20 retirees and beneficiaries receiving benefits. The Plan had a total of 181 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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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

**Net OPEB Liability (Asset)**

The Organization's net OPEB liability (asset) was measured as of December 31, 2023, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of January 1, 2023.

*Actuarial assumptions* – The total OPEB liability in the January 1, 2023 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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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

**Changes in the Net OPEB Liability (Asset)**

	<b>Total OPEB Liability (A)</b>	<b>Fiduciary Net Position (B)</b>	<b>Net OPEB Liability (Asset) (A)-(B)</b>
Balance at December 30, 2022	\$ 1,212,323	\$ 3,796,371	\$ (2,584,048)
Service cost	70,006	-	70,006
Interest cost	87,782	-	87,782
Differences between expected and actual experience	156,582	-	156,582
Net investment gain	-	411,452	(411,452)
Administrative expense	-	(5,624)	5,624
Net change	<u>314,370</u>	<u>405,828</u>	<u>(91,458)</u>
Balance at December 29, 2023	<u>\$ 1,526,693</u>	<u>\$ 4,202,199</u>	<u>\$ (2,675,506)</u>

	<b>Total OPEB Liability (A)</b>	<b>Fiduciary Net Position (B)</b>	<b>Net OPEB Liability (Asset) (A)-(B)</b>
Balance 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 headcount assumptions	(827,797)	-	(827,797)
Net investment gain	-	(364,848)	364,848
Administrative expense	-	(7,187)	7,187
Net change	<u>(902,517)</u>	<u>(372,035)</u>	<u>(530,482)</u>
Balance at December 30, 2022	<u>\$ 1,212,323</u>	<u>\$ 3,796,371</u>	<u>\$ (2,584,048)</u>

During the year ended December 29, 2023, it was discovered that the headcount change that occurred with the disposal of operations in 2022 was not taken into account with the 2022 OPEB liability calculation. The above table and the associated financial statement balances have been restated to reflect the appropriate amounts. These restatements were not material to the accompanying financial statements. (See Note 2).

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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

*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:

	<b>1% Decrease (5.5%)</b>	<b>Current Discount Rate (6.5%)</b>	<b>1% Increase (7.5%)</b>
Total OPEB Liability	\$ 1,602,540	\$ 1,526,693	\$ 1,457,757
Total OPEB Liability (1% increase in healthcare cost rate)	\$ 1,711,067	\$ 1,624,156	\$ 1,545,536
Total OPEB Liability (1% decrease in healthcare cost rate)	\$ 1,508,013	\$ 1,441,359	\$ 1,380,508

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

For the years ended December 29, 2023 and December 30, 2022, the Plan recognized OPEB income of \$268,424 and \$103,953, 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 29, 2023, the Plan reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 138,841	\$ 1,420,533
Differences between expected and actual investment earnings	33,707	2,683
Changes of assumptions or other inputs	393,257	215,750
Total	<u>\$ 565,805</u>	<u>\$ 1,638,966</u>

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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

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:

2024	\$ (137,379)
2025	(150,812)
2026	(111,185)
2027	(237,793)
2028	(203,669)
Thereafter	(232,323)
	<u>\$ (1,073,161)</u>

**Investments**

As of December 29, 2023, the Plan had investments in equity mutual funds totaling \$2,320,877 and the following restricted cash and fixed-income investments with the maturities indicated:

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 7,252	\$ 7,252	\$ -	\$ -	\$ -
Mutual funds – bonds	1,874,070	1,624,573	249,497	-	-
	<u>\$ 1,881,322</u>	<u>\$ 1,631,825</u>	<u>\$ 249,497</u>	<u>\$ -</u>	<u>\$ -</u>

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

Investment Type	Investment Maturities of Underlying Securities (in Years)				
	Market Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 1,037	\$ 1,037	\$ -	\$ -	\$ -
Mutual funds – bonds	1,754,396	-	1,754,396	-	-
	<u>\$ 1,755,433</u>	<u>\$ 1,037</u>	<u>\$ 1,754,396</u>	<u>\$ -</u>	<u>\$ -</u>

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

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### **13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

*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: 32% in domestic stocks, 16% in international stocks, 3% in real estate, 3% in alternatives, 10% in intermediate domestic debt securities, 10% in global debt securities, 10% in international debt securities, 10% in treasury inflation protected securities (TIPS) and 6% 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 29, 2023 and December 30, 2022. 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 29, 2023, the Plan had uncollateralized cash and investments with Fidelity Investments of \$4,202,199 (\$3,796,371 at December 30, 2022).

#### ***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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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

The following fair value hierarchy table presents information about the Organization's investments measured at fair value as of December 29, 2023:

	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:				
Equity mutual funds:				
Large and mid-cap	\$ 1,289,612	\$ 1,289,612	\$ -	\$ -
International	737,358	737,358	-	-
Real estate	133,282	133,282	-	-
Utilities	160,625	160,625	-	-
Fixed Income:				
Bond mutual funds:				
Short-term	965,568	965,568	-	-
International	908,502	908,502	-	-
Total investments	<u>\$ 4,194,947</u>	<u>\$ 4,194,947</u>	<u>\$ -</u>	<u>\$ -</u>

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**13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)**

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

	<b>Fair Value Measurement at Report Date Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
Investment Securities:				
Equity:				
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	-	-
Fixed Income:				
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>

**SOUTHERN RESEARCH INSTITUTE**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 29, 2023 AND DECEMBER 30, 2022**

**14. OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended December 29, 2023, are as follows:

	<b>Salaries, Wages, and Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Research	\$ 22,423,521	\$ 17,535,927	\$ 2,135,863	\$ 42,095,311
Institutional Support	3,973,488	2,733,779	379,579	7,086,846
Operation & Maintenance of Plant	<u>2,276,766</u>	<u>3,115,351</u>	<u>897,407</u>	<u>6,289,524</u>
Totals	<u>\$ 28,673,775</u>	<u>\$ 23,385,057</u>	<u>\$ 3,412,849</u>	<u>\$ 55,471,681</u>

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

	<b>Salaries, Wages, and Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Research	\$ 23,711,085	\$ 17,560,314	\$ 2,645,458	\$ 43,916,857
Institutional Support	2,964,637	3,295,516	278,362	6,538,515
Operation & Maintenance of Plant	<u>2,037,375</u>	<u>2,902,975</u>	<u>1,364,955</u>	<u>6,305,305</u>
Totals	<u>\$ 28,713,097</u>	<u>\$ 23,758,805</u>	<u>\$ 4,288,775</u>	<u>\$ 56,760,677</u>

Amounts are allocated based on management's best estimate.

**15. 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 \$780,685 and \$1,479,918 for the years ended December 29, 2023 and December 30, 2022, respectively. Total employer contributions, including matching and discretionary contributions, for the years ended December 29, 2023 and December 30, 2022, amounted to \$883,301 and \$1,397,406, respectively, for this plan.

**SOUTHERN RESEARCH INSTITUTE  
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**16. 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 \$6,557,735 during 2023 and \$5,450,609 during 2022. Expenses paid to UAB totaled \$1,893,794 during 2023 and \$1,348,862 during 2022. Accounts receivable from UAB were \$959,308 at December 29, 2023, and \$449,624 at December 30, 2022. Accounts payable to UAB were \$205,522 at December 29, 2023, and \$120,771 at December 30, 2022.

**17. COMMITMENTS AND CONTINGENCIES**

At December 29, 2023, 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.

**18. 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.

**19. 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 in 2022. The Engineering division had revenues and expenses of \$17.0 million and \$16.0 million, respectively, through the date the transaction closed.

**20. AMERICAN RESCUE PLAN ACT (ARPA)**

On June 8, 2023, the Organization entered into a memorandum of understanding with the State of Alabama for the award to the Organization of \$20.0 million of Coronavirus State Fiscal Recovery Funds. The Recovery Funds were provided to the State by the United States Government under the American Rescue Plan Act (ARPA). The ARPA funds were received by the Organization on June 16, 2023, and were placed in a Fidelity account segregated from other funds of the Organization. Through the fiscal year ended December 29, 2023, the Organization expended \$1,174,344 of the ARPA funds.

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**21. CASH AVAILABLE FOR GENERAL EXPENDITURES**

The following table reflects the Organization's cash, cash equivalents, investments and restricted cash and investments as of December 29, 2023 and December 30, 2022, reduced by amounts not available for general expenditures due to donor-imposed restrictions or board designations.

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 48,582,006	\$ 89,840,930
Investments	109,464,611	72,355,093
Restricted cash and investments	12,338,096	11,471,250
Less: Cash, cash equivalents and investments unavailable for general expenditures within one year:	170,384,713	173,667,273
Donor purpose restrictions	55,232,761	-
Board designated restrictions for capital projects	93,003,867	139,699,000
Segregated donor purpose restricted cash and investments	12,338,096	11,471,250
Cash, cash equivalents and investments available to meet cash needs for general expenditures	<b>\$ 9,809,989</b>	<b>\$ 22,497,023</b>

For fiscal years ended 2022 and 2023, the Organization has received substantial funding from various entities specifically for the construction of a new research facility on its campus and for various programs relative to its research activities. Because this funding requires resources to be used in a particular manner, the Organization must maintain sufficient resources to meet those responsibilities to these entities. Board designated restrictions require resources to be used for specific capital construction projects and require funding resources to be used in a particular manner.

**22. 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 funds are contingent on the Organization securing further funding from the State of Alabama (which occurred in 2022) and from the City of Birmingham. Jefferson County has specified the funds to be used towards the construction of the new facilities. During 2024, the Organization secured a commitment from the City of Birmingham, so the funds from Jefferson County are no longer contingent. The City of Birmingham funds are for salaries and/or programmatic expenses related to the Catalyst project.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTHERN RESEARCH INSTITUTE**  
**(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)**  
**REQUIRED SUPPLEMENTARY INFORMATION –**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET)**

	<u>2023</u>	<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>
<b>TOTAL OPEB LIABILITY</b>										
Service cost	\$ 70,006	\$ 119,760	\$ 97,986	\$ 115,865	\$ 108,284	\$ 123,141	\$ 144,932	\$ 137,234	\$ 150,288	\$ 159,178
Interest	87,782	126,879	131,985	135,840	153,177	175,563	207,648	207,519	191,972	215,791
Differences between expected and actual experience	156,582	(321,359)	(289,078)	(463,443)	(351,911)	(757,837)	(180,239)	(151,861)	-	(200,674)
Change in assumptions	-	(827,797)	(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	314,370	(902,517)	(60,495)	(241,023)	(360,572)	(496,757)	24,194	140,728	269,001	(387,641)
Total OPEB liability – beginning	1,212,323	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>\$ 1,526,693</u>	<u>\$ 1,212,323</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>
<b>OPEB FIDUCIARY NET POSITION</b>										
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net investment income	411,452	(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	(5,624)	(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	405,828	(372,035)	427,788	136,826	203,268	(233,394)	175,470	191,507	(2,033,662)	192,530
Plan fiduciary net position – beginning	3,796,371	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)	4,202,199	3,796,371	4,168,406	3,740,618	3,603,792	3,400,524	3,633,918	3,458,448	3,266,941	5,300,603
<b>NET OPEB LIABILITY (ASSET) (A) – (B)</b>	<u>\$ (2,675,506)</u>	<u>\$ (2,584,048)</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)</u>
<b>COVERED EMPLOYEE PAYROLL</b>	\$17,436,442	\$ 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
<b>NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL</b>	-15.34%	-8.88%	-7.69%	-5.26%	-4.19%	-1.80%	-1.01%	-0.63%	-0.48%	-7.55%
<b>NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY</b>	275.25%	313.15%	197.10%	171.96%	149.14%	122.46%	111.00%	106.43%	105.09%	186.66%

See independent auditors' report.

**SOUTHERN RESEARCH INSTITUTE  
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)  
REQUIRED SUPPLEMENTARY INFORMATION –  
NOTES TO THE SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET)**

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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 29, 2023**

Program Title/Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Grant Contract Number	Pass-Through Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<b><u>Department of Treasury</u></b>					
Covid-19 Coronavirus State and Local Fiscal Recovery Funds					
<b>Pass-Through</b>					
State of Alabama Department of Finance	21.027		Alabama Act No. 2023-1	\$ 1,174,344	\$ -
<b>Total Department of Treasury</b>				<b>1,174,344</b>	<b>-</b>
<b>Research and Development Cluster:</b>					
<b><u>Department of Defense</u></b>					
<b>Direct</b>					
Department of Defense	12.	W81XWH2210529		337,964	-
<b>Pass-Through</b>					
University of North Carolina at Chapel Hill	12.	0000884661	5130557	13,344	-
<b>Total Department of Defense</b>				<b>351,308</b>	<b>-</b>
<b><u>U.S. Environmental Protection Agency</u></b>					
<b>Direct</b>					
U.S. Environmental Protection Agency	66.	FAIN 02D45123		131,276	-
<b>Total U.S. Environmental Protection Agency</b>				<b>131,276</b>	<b>-</b>
<b><u>Department of Energy</u></b>					
<b>Pass-Through</b>					
Southern Company Service, Inc.	81.	DE-NT000749	SCS31511-0014	546,728	-
<b>Total Department of Energy</b>				<b>546,728</b>	<b>-</b>
<b><u>Department of Health and Human Services</u></b>					
<b>Direct</b>					
National Institutes of Health	93.	HHSO1002017000171		50,000	-
National Institutes of Health	93.	7R01CA183921-02		(1,519)	-

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 29, 2023**

Program Title/Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Grant Contract Number	Pass-Through Identifying Number	Federal Expenditures	Passed Through to Subrecipients
National Institutes of Health	93.	1R01DA047924-01A1		980,818	399,074
National Institutes of Health	93.	1R01NS124037-01		174,255	147,308
National Institutes of Health	93.	HHSN273201300010C		1,632,549	-
National Institutes of Health	93.	1S10OD034237-01		519,268	-
National Institutes of Health	93.	75N95C23P00039		10,000	-
National Institutes of Health	93.	75N95023P00326		33,999	-
National Institutes of Health	93.	75N93019D00014		(8,284)	-
National Institutes of Health	93.	1R21AI146729-01A1		1,570	-
National Institutes of Health	93.	HHSN272201800006I		971,080	-
National Institutes of Health	93.	HHSN272201400010I		(27)	-
National Institutes of Health	93.	7R01NS101958-02		2,654	-
National Institutes of Health	93.	1UG3AR083022-01		208,348	-
National Institutes of Health	93.	75D30122P14061		333,485	-
National Institutes of Health	93.	HHSN272201800006I		119,889	-
National Institutes of Health	93.	75N93019D00014		269,773	-
<b>Pass-Through:</b>					
SIGA Technologies, Inc.	93.	P21.0351R1	2021-02993	251,669	-
University of Alabama at Birmingham	93.	1U19AI142759-01	000520254-009 000520254-010 000520254-011	4,064,712	-
University of Alabama at Birmingham	93.	1U54ES030246-01	000518124-SC001	515,457	-
University of Alabama at Birmingham	93.	1UL1TR003096-01	000520679-007	28,669	-
University of Alabama at Birmingham	93.	1R01AG081433-01	000536910-SC003	6,142	-
Oregon Health & Science University	93.	75N93023C00002	1022269_SOUTHERN_COA1	168,354	-
University of TN Health Science Center	93.	1R01CA266207-01A1	23-0350	656,307	-
National Institute of Allergy and Infectious Diseases	93.	75N93021D00010	75N93021F00003	14,108	-
National Institute of Allergy and Infectious Diseases	93.	75N93021D00010	75N93021F00004	198,662	-

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 29, 2023**

<b>Program Title/Federal Grantor/Pass-Through Grantor</b>	<b>Federal Assistance Listing</b>	<b>Grant Contract Number</b>	<b>Pass-Through Identifying Number</b>	<b>Federal Expenditures</b>	<b>Passed Through to Subrecipients</b>
Biofactura, Inc.	93.	75A50119C00054	P22.0307	2,534,166	-
Case Western Reserve University	93.	5R01AI148469-02	RES514992	66,237	-
Biomedical Advanced Research and Development Authority	93.	HHSO100201700018I	TO 75A50120F33001	240,306	-
<b>Total Department of Health &amp; Human Services</b>				<b>14,042,647</b>	<b>546,382</b>
<b>Total Research and Development Cluster</b>				<b>15,071,959</b>	<b>546,382</b>
<b>Grand Total</b>				<b>\$ 16,246,303</b>	<b>\$ 546,382</b>

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 29, 2023**

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**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 29, 2023. 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 net position – enterprise fund as of December 29, 2023, and the related statements of revenues, expenses and changes in net position – enterprise fund, and cash flows – enterprise fund, and the fiduciary activity statements for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2024.

**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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002, that we consider to be material weaknesses.

**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*.

**Organization's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on Southern Research Institute's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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 15, 2024

**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

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Southern Research Institute's (the Organization) 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 29, 2023. 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 29, 2023.

***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 (GAAS); 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.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-003. Our opinion on each major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### ***Report on Internal Control over Compliance***

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 and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-003 to be a material weakness.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 25, 2024

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 29, 2023**

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**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   X   No       

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   X   No       

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   X   No       

Identification of major programs:

<u>Federal Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	<i>Research and Development Cluster</i>
21.027	<i>Covid-19 Coronavirus State and Local Fiscal Recovery Funds</i>

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

Auditee qualified as low-risk auditee? Yes   X   No

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

**Finding 2023-001 – Financial Reporting (Material Weakness)**

**Criteria:** Management is responsible for establishing and maintaining effective internal controls over financial reporting. In addition, the entries necessary to adjust the Organization's general ledger system should be posted in a timely manner.

**Condition:** Numerous post-closing adjustments, reclassification and audit adjustments were recorded after year-end in order to properly account for transactions and produce accurate financial statements. Many of these adjustments were related to nonroutine transactions that occurred at the Organization. The adjustments were material in the aggregate and impacted multiple line items on the financial statements.

**Cause/Effect:** The Organization failed to timely identify certain adjustments required to present the financial statements in accordance with GAAP.

**Recommendation:** We recommend management strengthen the oversight of the Organization by ensuring the Executive Leadership Team works together to take a proactive approach in addressing financial transactions that have a material impact on the fiscal health and financial reporting of the Organization. This will assist in ensuring conclusions may be reached early so that potential adjustments can be recorded before year-end or during the normal year-end close process.

**Views of responsible officials:** Management agrees with the finding and the auditors' recommendation. See Corrective Action Plan at the end of the report.

**Finding 2023-002 – Corporate Governance (Material Weakness)**

**Criteria:** Management is responsible for establishing and maintaining effective internal controls including documentation of internal controls and policies and procedures and the generation of clear implementation guidelines, communications, and training. Strong corporate governance is multi-faceted and includes an appropriate tone at the top to set the stage for functioning policies and procedures, compliance and corporate behavior, including prevention of management override of controls.

**Condition:** There is a lack of clarity concerning the Organization's internal controls and policies and procedures.

**Cause/Effect:** This results in a lack of consistent implementation of internal controls and policies and procedures.

**Recommendation:** We recommend a full review and documentation of internal controls and policies and procedures and the generation of clear implementation guidelines, communication and training. This should encompass budgeting, grant administration, human resources, board reporting,

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compliance with laws and regulations, expense reimbursement policies, waste and abuse and an independently operated ethics hotline.

**Views of responsible officials:** Management agrees with the finding and the auditors' recommendation. See Corrective Action Plan at the end of the report.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2023-003 – Procurement, Non-compliance (Material Weakness)**

**Federal programs:** U.S. Department of Treasury – ALN 21.027, *Covid-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)*, and *Research and Development Cluster*

**Criteria:** The Federal Government requires that all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of 2 CFR section 200.319 and 2 CFR section 200.320. Non-federal entities must also ensure that every purchase order or other contract includes provisions required by 2 CFR section 200.326. These provisions are described in Appendix II to 2 CFR Part 200, "Contract Provisions for Non-Federal Entity Contracts Under Federal Awards". In addition, per the Uniform Guidance CFR 200.303, nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

**Condition:** The Organization did not properly identify certain purchase orders or other contracts as federal award transactions subject to procurement regulations.

**Context:** During our testing of procurement for the Research and Development Cluster, we noted that the Organization did not provide adequate documentation of price or rate quotations from a qualified number of sources for 3 of 40 items tested that met the small purchase threshold. For an additional 4 of the 40 items that met the small purchase threshold and were single sourced, the Organization could not provide adequate documentation of the sole source justification being documented prior to the purchase being made. The sample was not statistically valid.

During our testing of procurement for Coronavirus State and Local Fiscal Recovery Funds ALN 21.027, we noted that 3 of the 3 contracts entered into did not include the proper contract flow-down provisions. Additionally, 2 of the 3 contracts that met the small purchase threshold and were sole sourced did not include adequate documentation of sole source justification prior to the purchase.

**Cause:** The Organization did not properly identify certain purchase orders or other contracts as federal award transactions subject to procurement regulations.

**Effect:** Internal controls were not properly implemented to reduce the risk of noncompliance and the Organization was not in compliance with Federal procurement requirements.

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**Questioned costs:** None

**Repeat finding:** No

**Recommendation:** We recommend management review internal controls over identification of federal contracts for adequacy and ensure internal controls over the procurement process are properly implemented.

**Views of responsible officials:** Management agrees with the finding and the auditors' recommendation. See Corrective Action Plan at the end of the report.

**SECTION IV – STATUS OF PRIOR FINDINGS**

There were no prior year findings or questioned costs.



**CORRECTIVE ACTION PLAN  
YEAR ENDED DECEMBER 29, 2023**

Southern Research Institute respectfully submits the following corrective action plan for the year ended December 29, 2023.

**Finding 2023-001 - Financial Reporting (Material Weakness)**

**Action taken in response to finding:** Management has worked with the board to take steps to address the most significant issues noted in our financial reporting process. First, Southern Research has made numerous changes in executive leadership with a focus on establishing a culture of collaboration while developing better communication protocols between departments. Second, we have implemented regular, cross-departmental meetings to understand and communicate transactions that could affect the organization's financial statements. The new executive leadership team is also committed to a more productive approach to developing strategies and decision making which facilitates recording transactions in the organization's financial statements in a timelier manner. Third, we will also ensure that we closely adhere to our routine monthly and year-end close process.

In addition to the actions taken to transition to a new and collaborative leadership team and the renewed commitment to work in a more effective and productive manner, we have engaged a professional services team to perform a comprehensive business process review of the organization's policies and procedures. One of the goals of this review is to provide recommendations to enhance policies, procedures, and controls to prevent or detect errors in the financial statements.

**Name of Person Responsible for the Corrective Action Plan:** David A. Rutledge, Sr. Advisor – Finance

**Planned Completion Date for Corrective Action Plan:** We anticipate implementing many of the most significant resulting recommendations by year-end with most of the remaining recommendations being implemented no later than March 31, 2025.

**Finding 2023-002 – Corporate Governance (Material Weakness)**

**Action taken in response to finding:** The remediation of the issues identified under corporate governance are the highest priority for the board, finance committee and executive leadership of Southern Research. We have taken action to ensure that the new leadership team consistently communicates and demonstrates the importance of adhering to established policies, procedures and controls at the organization. For example, in revising and re-issuing the employee handbook, we have also sought to clarify key policies and communicate the importance of compliance with those policies.

We are also committed to ensuring that the business process review engagement that is currently underway includes all critical processes and departments at Southern Research and will include, but not necessarily be limited to, the organization's budgeting, grant administration, human resources, board reporting, compliance with laws and regulations and expense reimbursement policies.

**Name of Person Responsible for the Corrective Action Plan:** David A. Rutledge, Sr. Advisor – Finance

2000 Ninth Avenue South, Birmingham, AL 35205  
southernresearch.org



**Planned Completion Date for Corrective Action Plan:** We have already implemented several enhancements to our policies and procedures identified during this process and are committed to having many of the most significant recommendations implemented by year-end. We also anticipate having most of the remaining recommendations fully implemented no later than March 31, 2025.

**Finding 2023-003 – Procurement Non-Compliance (Material Weakness)**

**Federal Program Title:** U.S. Department of Treasury – ALN 21.027, *Covid-19 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)*, and *Research and Development Cluster*

**Assistance Listing Number:** Various

**Action taken in response to finding:** We have taken steps to identify all active federal awards that are subject to Federal procurement requirements under 2 CFR Part 200; these actions will ensure that all purchase orders and other subcontract arrangements under existing federal awards are subject to our purchasing system policies and procedures for Federal awards.

Southern Research’s existing purchasing policies and procedures for Federal awards were reviewed and deemed acceptable in 2017 by the Defense Contract Management Agency (DCMA) Huntsville, AL. Contracts appropriately classified as Federal awards will be subject to purchasing policies and procedures that are compliant with Federal regulations.

As part of the business process review, we will implement processes to ensure that all new Federal awards are classified correctly, and that Southern Research’s Federal purchasing system policies and procedures are applied to all Federal awards.

**Name of Person Responsible for the Corrective Action Plan:** David A. Rutledge, Sr. Advisor - Finance

**Planned Completion Date for Corrective Action Plan:** We anticipate that new process recommendations from the business process review related to purchasing will be implemented no later than December 31, 2024.