

**SOUTHERN RESEARCH INSTITUTE  
(A COMPONENT UNIT OF THE BOARD OF  
TRUSTEES OF THE UNIVERSITY OF  
ALABAMA)  
FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
January 3, 2025 AND December 29, 2023**



[www.warrenaverett.com](http://www.warrenaverett.com)

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 accompanying 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 January 3, 2025 and December 29, 2023, 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 January 3, 2025 and December 29, 2023, and the respective changes in 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only Southern Research Institute and do not purport to, and do not, present fairly the financial position of the Board of Trustees of the University of Alabama, as of January 3, 2025 and December 29, 2023, 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.

### ***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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 4-13 and other postemployment benefit information on pages 46-47 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 audit 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization'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 13, 2025, 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 13, 2025

**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 January 3, 2025 and December 29, 2023, 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 January 3, 2025 and December 29, 2023, 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 30, 2023 through January 3, 2025 (2024) and December 31, 2022 through December 29, 2023 (2023).

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.

**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.

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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 January 3, 2025 and December 29, 2023, is as follows:

	<b>2024</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
Current assets	\$ 112,834,340	\$ 184,956,091	\$ (72,121,751)	(39)%
Capital assets, net	114,606,343	52,024,132	62,582,211	120 %
Noncurrent assets, other	10,897,229	4,564,146	6,333,083	139 %
Deferred outflows of resources	400,280	565,805	(165,525)	(29)%
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 238,738,192</b>	<b>\$ 242,110,174</b>	<b>\$ (3,371,982)</b>	<b>(1)%</b>
Current liabilities	\$ 47,235,840	\$ 52,885,136	\$ (5,649,296)	(11)%
Noncurrent liabilities	7,725,133	8,715,198	(990,065)	(11)%
Deferred inflows of resources	2,204,961	1,638,966	565,995	35 %
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 57,165,934</b>	<b>\$ 63,239,300</b>	<b>\$ (6,073,366)</b>	<b>(10)%</b>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 105,767,183	\$ 42,137,766	\$ 63,629,417	151 %
Restricted:				
Expendable	15,627,873	13,940,441	1,687,432	12 %
Unrestricted	60,177,202	122,792,667	(62,615,465)	(51)%
<b>TOTAL NET POSITION</b>	<b>\$ 181,572,258</b>	<b>\$ 178,870,874</b>	<b>\$ 2,701,384</b>	<b>2 %</b>

Net position increased from \$178.9 million at December 29, 2023, to \$181.6 million at January 3, 2025, an increase of \$2.7 million. This increase is a result of the net operating loss offset by nonoperating revenue and capital gifts and grants for the year ended January 3, 2025.

Total assets and deferred outflows decreased by approximately 1% during 2024, with current assets decreasing by 39%, a 120% increase in capital assets, a 139% increase in noncurrent assets, other, and a 29% decrease in deferred outflows. The change in current assets comprised:

- Investments (restricted and unrestricted), short-term and long-term, decreased from \$121.8 million at December 29, 2023, to \$69.6 million at January 3, 2025, due mainly in part to the progress of the master campus plan and the need to utilize the funds. Interest and dividend income reinvested totaled \$5.7 million, market gains totaled \$2.2 million and net transfers to operations were approximately \$69.5 million.

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**STATEMENTS OF NET POSITION**

- Cash and cash equivalents decreased from \$48.6 million at the beginning of the year to \$42.5 million at year-end due to negative cash flows from operations of \$5.9 million, negative cash flows from noncapital financing activities of \$0.6 million, negative cash flows from capital and related financing activities of \$60.5 million and positive cash flows from investing activities of \$61.1 million.
- Accounts receivable decreased by 7%, with the 2024 year-end balance of \$4.8 million representing 57.2 days of sales outstanding for contract revenues compared to 49.1 days of sales outstanding for contract revenues at December 29, 2023. The increase comprises a 30% increase in billed accounts receivable driven by the timing of milestone payments under firm-fixed-price contracts net of a \$0.4 million increase in allowances. Unbilled accounts receivable decreased by 27%.
- A note receivable for \$659,000 was entered into with a customer during 2023. The note was fully reserved at January 3, 2025.
- Other receivables decreased 87% from the December 29, 2023, balance of \$7.6 million, resulting principally from capital gifts and grants received in 2024.
- Prepayments and other current assets decreased by 61% from December 29, 2023 to January 3, 2025, due to disposition of assets held for sale of \$1.5 million and prepaid project costs of \$0.8 million that were expensed in 2024.
- Noncurrent investments increased by 270% 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 \$69.5 million in capital assets in 2024. After disposals and depreciation/amortization expense, net capital assets increased from the 2023 year-end balance of \$52.0 million to \$114.6 million at 2024 year-end.

Current liabilities decreased by 11% during the year from beginning balances of \$52.9 million to \$47.2 million. The 11% net decrease in total current liabilities comprised a 16% decrease in accounts payable to a year-end balance of \$8.4 million, a 57% increase in accrued liabilities to a year-end balance of \$6.7 million and a 15% decrease in unearned revenue from the beginning balance of \$36.6 million. The decrease in accounts payable is a result of payables related to construction projects for the campus master plan decreasing with the master campus plan nearing its completion. The increase in accrued liabilities is a result of the campus master plan retainage. The decrease in unearned revenue is a result of requirements for contributions being met and earned in 2024.

Noncurrent liabilities decreased by 11% or \$1.0 million due to the decrease of long-term debt.

Restricted – expendable net position increased by \$1.7 million due to an increase in restricted cash and investments of \$1.2 million, an increase in net OPEB asset of \$1.2 million, offset by a \$0.2 million decrease in deferred outflows – OPEB, and an increase in deferred inflows – OPEB of \$0.6 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 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, net	52,024,132	23,871,745	28,152,387	118 %
Noncurrent assets, other	4,564,146	32,658,762	(28,094,616)	(86)%
Deferred outflows of resources	565,805	574,750	(8,945)	(2)%
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 242,110,174</u></b>	<b><u>\$ 213,490,496</u></b>	<b><u>\$ 28,619,678</u></b>	<b><u>13 %</u></b>
Current liabilities	\$ 52,885,136	\$ 20,706,548	\$ 32,178,588	155 %
Noncurrent liabilities	8,715,198	9,735,796	(1,020,598)	(10)%
Deferred inflows of resources	1,638,966	1,824,877	(185,911)	(10)%
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b><u>\$ 63,239,300</u></b>	<b><u>\$ 32,267,221</u></b>	<b><u>\$ 30,972,079</u></b>	<b><u>96 %</u></b>
<b>NET POSITION</b>				
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)%
<b>TOTAL NET POSITION</b>	<b><u>\$ 178,870,874</u></b>	<b><u>\$ 181,223,275</u></b>	<b><u>\$ (2,352,401)</u></b>	<b><u>(1)%</u></b>

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 noncurrent assets, other, 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.
- 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.

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## **STATEMENTS OF NET POSITION**

- 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% 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 \$10.0 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, and accruals related to retainage at year end. Current maturities of long-term debt increased by 5% to a year-end balance of \$1.2 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.

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

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

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

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 2024 and 2023 are as follows:

	Year Ended 2024	Year Ended 2023	\$ Change	% Change
Operating revenues	\$ 31,806,216	\$ 38,816,139	\$ (7,009,923)	(18)%
Operating expenses	49,368,430	55,471,681	(6,103,251)	(11)%
Operating loss	(17,562,214)	(16,655,542)	(906,672)	(5)%
Nonoperating revenues (expenses)	6,097,938	7,250,239	(1,152,301)	(16)%
Capital gifts and grants and special items	14,165,660	7,052,902	7,112,758	101 %
Changes in net position	2,701,384	(2,352,401)	5,053,785	212 %
Net position at beginning of year	178,870,874	181,223,275	(2,352,401)	(1)%
Net position at end of year	<u>\$ 181,572,258</u>	<u>\$ 178,870,874</u>	<u>\$ 2,701,384</u>	<u>2 %</u>

Operating revenues in 2024 were 18% lower than the prior year, with revenues from sales to the U.S. Government generating 34% of the total in 2024 and 37% in 2023. Net intellectual property (IP) income increased from 2023 to 2024 by 49% due to income from a royalty stream from a new product. Declines in revenues are directly related to the decline in sales volume within business development.

Salaries, wages and employee benefits decreased by 12% from 2023 to 2024. Year-end employee headcounts (full-time equivalents, FTE) for the Organization for 2024 and 2023 were 184 and 231, respectively. Average FTE headcounts for 2024 and 2023 were 201 and 239, respectively. Contract revenue per average FTE was approximately \$151,000 for 2024 and \$160,000 for 2023.

There was a 13% decrease in expenditures for supplies and services from 2024 to 2023 which comprises a 7% decrease in directly related project expenditures and a 20% decrease in non-labor overhead and general and administrative expenses.

There was a 12% increase in interest expense in 2024 due primarily to imputed interest for subscription-based information technology arrangement (SBITA) assets and liabilities.

The decrease in investment income in 2024 comprises unrealized gains on investments in 2024 of \$2.2 million versus unrealized gain on investments of \$3.9 million in 2023. Dividend and interest income was \$5.6 million in 2024 and \$6.7 million in 2023.

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

Comparative statements of revenues, expenses and changes in net position for 2023 and 2022 are as follows:

	Year Ended 2023	Year Ended 2022	\$ Change	% Change
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 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)%
Changes 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>	<u>(1)%</u>

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% decrease in expenditures for supplies and services from 2022 to 2023 which comprises an 18% decrease in directly related project expenditures and a 17% 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.

**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 capital and related 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.

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

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.

Summary cash flows for 2024 and 2023 are as follows:

	<b>Year Ended 2024</b>	<b>Year Ended 2023</b>	<b>\$ Change</b>	<b>% Change</b>
Cash flows from operating activities	\$ (5,920,658)	\$ 10,112,409	\$ (16,033,067)	(159)%
Cash flows from noncapital financing activities	(626,607)	(662,041)	(35,434)	5 %
Cash flows from capital and related financing activities	(60,548,974)	(23,311,163)	(37,237,811)	(160)%
Cash flows from investing activities	61,058,727	(27,398,129)	88,456,856	323 %
Net change in cash and cash equivalents	(6,037,512)	(41,258,924)	35,221,412	85 %
Cash and cash equivalents at beginning of	48,582,006	89,840,930	(41,258,924)	(46)%
Cash and cash equivalents at end of year	<u>\$ 42,544,494</u>	<u>\$ 48,582,006</u>	<u>\$ (6,037,512)</u>	<u>(12)%</u>

The significant differences in cash flows in 2024 versus 2023 are:

Operating activities:

- Cash collected from contract revenues decreased by \$20.3 million which is 28% higher than the decrease in accounts receivable.
- Cash collected from intellectual property (IP) income increased by 31%, less than the 49% increase in accrual-based IP income.
- Payments to employees decreased by \$3.3 million in 2024 mainly due to the net effect of decreased average FTEs as a result of the reduction in workforce the Organization made in 2024. 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 \$0.5 million with a \$0.6 million decrease in payments for project related expenses along with a \$2.6 million decrease in indirect expenses.

Noncapital financing activities:

- Noncapital financing activities was consistent with 2023 with approximately \$0.6 million net expenditures.

Capital and related financing activities:

- Purchases of capital assets increased from \$34.5 million in 2023 to 69.0 million in 2024 as a result of the progress of the master campus plan.

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**STATEMENTS OF CASH FLOWS**

- Principal and interest payments on long-term debt were \$1.0 million in 2024 and \$1.2 million in 2023.
- Proceeds from sale of capital assets totaled \$1.8 million in 2024.

Investing activities:

- Purchases of investments decreased from \$442.5 million in 2023 to \$131.5 million in 2024, and proceeds from sales of investments decreased from \$408.4 million in 2023 to \$186.9 million in 2024.
- Interest and dividend income was approximately \$5.7 million in 2024 and \$6.7 million in 2023.

Summary cash flows for 2023 and 2022 are as follows:

	Year Ended 2023	Year Ended 2022	\$ Change	% Change
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	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>	<u>(46)%</u>

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 \$0.9 million with a \$2.3 million decrease in payments for project related expenses along with a \$1.4 million increase in indirect expenses.

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## **STATEMENTS OF CASH FLOWS**

### 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 \$34.5 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.

### 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 \$45.0 million from the state of Alabama. Net proceeds from sales and purchases of investments for 2023 were funded by a state operating appropriation of \$20.0 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.

## **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. January 3, 2025, capital expenditure commitments were approximately \$28.7 million.

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 2024 the Organization invested approximately \$69.5 million in capital assets.

The long-term debt at January 3, 2025 and December 29, 2023, was related to a \$20.0 million Recovery Zone Facility Bond issued on August 30, 2010, and refinanced on September 1, 2022, and SBITA obligations of \$1.1 million and \$0.3 million respectively.

During 2024 and 2023, the Organization made long-term debt payments of \$1.0 million and \$1.2 million, respectively, with 2023 payments comprising \$0.8 million related to the Recovery Zone Facility Bond and the balance related to lease payments.

## **FINANCIAL STATEMENTS**

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF NET POSITION – ENTERPRISE FUND**  
**JANUARY 3, 2025 AND DECEMBER 29, 2023**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<b>2024</b>	<b>2023</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 42,544,494	\$ 48,582,006
Investments, at fair value	49,059,003	107,575,971
Restricted cash and investments, at fair value	13,576,328	12,338,096
Accounts receivable, net	4,765,819	5,104,599
Other receivables	1,021,821	7,626,435
Materials and supplies, net	447,404	128,103
Prepayments and other current assets	1,419,471	3,600,881
Total current assets	112,834,340	184,956,091
<b>NONCURRENT ASSETS</b>		
Net OPEB asset	3,913,595	2,675,506
Investments, long-term	6,983,634	1,888,640
Capital assets:		
Land and improvements	3,612,802	3,612,802
Buildings and major plant equipment	45,493,354	30,723,916
Laboratory equipment and fixtures	37,793,181	36,533,320
Office furniture and equipment	2,227,366	2,122,920
Intangible assets, net	1,403,763	1,905,197
Right of use assets - SBITAs	2,517,989	2,385,532
	93,048,455	77,283,687
Less accumulated depreciation	61,933,576	59,245,439
	31,114,879	18,038,248
Construction-in-progress	83,491,464	33,985,884
Total capital assets, net	114,606,343	52,024,132
Total noncurrent assets	125,503,572	56,588,278
<b>TOTAL ASSETS</b>	<b>238,337,912</b>	<b>241,544,369</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - OPEB	400,280	565,805
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 238,738,192</b>	<b>\$ 242,110,174</b>

See notes to the financial statements

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF NET POSITION – ENTERPRISE FUND**  
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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

	<b>2024</b>	<b>2023</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,448,680	\$ 10,039,299
Accrued liabilities	6,719,455	4,277,903
Unearned revenue	30,953,678	36,577,141
Current maturities of long-term debt	1,114,027	1,171,168
Note payable	—	819,625
Total current liabilities	47,235,840	52,885,136
<b>NONCURRENT LIABILITIES</b>		
Long-term debt	7,725,133	8,715,198
<b>TOTAL LIABILITIES</b>	54,960,973	61,600,334
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - OPEB	2,204,961	1,638,966
<b>NET POSITION</b>		
Net investment in capital assets	105,767,183	42,137,766
Restricted:		
Expendable	15,627,873	13,940,441
Unrestricted	60,177,202	122,792,667
Total net position	181,572,258	178,870,874
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 238,738,192	\$ 242,110,174

See notes to the financial statements

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION – ENTERPRISE FUND**  
**FOR THE YEARS ENDED JANUARY 3, 2025 AND DECEMBER 29, 2023**

	<u>2024</u>	<u>2023</u>
<b>OPERATING REVENUES</b>		
Contract revenues	\$ 30,426,698	\$ 37,890,045
Intellectual property revenues, net of direct expenses	1,379,518	926,094
Total operating revenues	<u>31,806,216</u>	<u>38,816,139</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	25,135,494	28,673,775
Supplies and services	20,228,859	23,385,057
Depreciation and amortization	4,004,077	3,412,849
Total operating expenses	<u>49,368,430</u>	<u>55,471,681</u>
<b>OPERATING LOSS</b>	<u>(17,562,214)</u>	<u>(16,655,542)</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Contributions	160,933	158,198
Investment income	7,826,674	10,578,231
Interest expense	(359,033)	(320,846)
Loss on disposal and impairment of assets	(1,530,636)	(3,165,344)
<b>LOSS BEFORE CAPITAL GIFTS AND GRANTS AND SPECIAL ITEMS</b>	<u>(11,464,276)</u>	<u>(9,405,303)</u>
Capital gifts and grants	14,165,660	7,100,000
Loss on discontinued operations	—	(47,098)
<b>CHANGE IN NET POSITION</b>	<u>\$ 2,701,384</u>	<u>\$ (2,352,401)</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>\$ 178,870,874</u>	<u>\$ 181,223,275</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 181,572,258</u></u>	<u><u>\$ 178,870,874</u></u>

See notes to the financial statements

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF CASH FLOWS – ENTERPRISE FUND**  
**FOR THE YEARS ENDED JANUARY 3, 2025 AND DECEMBER 29, 2023**

	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 37,191,715	\$ 57,444,405
Intellectual property revenues	1,622,684	1,240,677
Payments to employees and related benefits	(26,020,434)	(29,308,507)
Payments to suppliers	(18,714,623)	(19,264,166)
Net cash (used) provided by operating activities	(5,920,658)	10,112,409
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Contributions	193,018	158,198
Net change in note payable	(819,625)	(820,239)
Net cash used by noncapital financing activities	(626,607)	(662,041)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(68,971,158)	(34,535,103)
Proceeds from sale of assets held for sale	1,824,000	—
Principal payments on SBITAs and long-term debt	(1,542,783)	(1,391,890)
Interest payments on long-term debt	(359,033)	(320,846)
Capital gifts and grants	8,500,000	13,000,000
Post-sale expenses from sale of capital assets	—	(16,226)
Payments for discontinued operations	—	(47,098)
Net cash used by capital and related financing activities	(60,548,974)	(23,311,163)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	186,903,138	408,381,870
Purchases of investments	(131,520,676)	(442,505,822)
Interest on cash	886	1,432
Interest and dividend income on investments	5,675,379	6,724,391
Net cash (used) provided by investing activities	61,058,727	(27,398,129)
 <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	 (6,037,512)	 (41,258,924)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	48,582,006	89,840,930
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 42,544,494</b>	<b>\$ 48,582,006</b>

See notes to the financial statements

**SOUTHERN RESEARCH INSTITUTE**  
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**STATEMENTS OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)**  
**FOR THE YEARS ENDED JANUARY 3, 2025 AND DECEMBER 29, 2023**

	2024	2023
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (17,562,214)	\$ (16,655,542)
Adjustments to reconcile operating income to net cash (used) provided by operating activities:		
Depreciation and amortization	4,004,077	3,412,849
Noncash adjustment of postretirement benefits	(506,569)	(268,424)
Change in accounts receivable, net	2,838,780	4,619,936
Change in other receivables	(917,886)	687,700
Change in materials and supplies, net	(319,301)	88,174
Change in prepayments and other current assets	1,914,985	(2,963,148)
Change in accounts payable	(1,590,619)	5,423,636
Change in accrued liabilities	2,441,552	846,621
Change in unearned revenue	3,776,537	14,920,607
Net cash (used) provided by operating activities	\$ (5,920,658)	\$ 10,112,409
 <b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Change in fair value of investments	\$ 2,150,409	\$ 3,852,408
Capital assets acquired through SBITAs	\$ 495,576	\$ 179,255

See notes to the financial statements

**SOUTHERN RESEARCH INSTITUTE – VEBA TRUST FUND**  
**STATEMENTS OF FIDUCIARY NET POSITION – OPEB TRUST FUND**  
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	<b>2024</b>	<b>2023</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,851	\$ 7,252
Investments, at fair value	4,566,809	4,194,947
<b>TOTAL ASSETS</b>	<b>\$ 4,577,660</b>	<b>\$ 4,202,199</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>NET POSITION RESTRICTED FOR OPEB</b>	<b>\$ 4,577,660</b>	<b>\$ 4,202,199</b>

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 JANUARY 3, 2025 AND DECEMBER 29, 2023**

	<u>2024</u>	<u>2023</u>
<b>ADDITIONS</b>		
Increase in fair value of investments	\$ 235,078	\$ 280,214
Dividends and interest	140,383	131,239
Total additions	<u>375,461</u>	<u>411,453</u>
<b>DEDUCTIONS</b>		
Administrative expenses	—	5,624
Total deductions	<u>—</u>	<u>5,624</u>
<b>NET CHANGE</b>	375,461	405,829
<b>NET POSITION RESTRICTED FOR OPEB AT BEGINNING OF YEAR</b>	<u>4,202,199</u>	<u>3,796,370</u>
<b>NET POSITION RESTRICTED FOR OPEB AT END OF YEAR</b>	<u>\$ 4,577,660</u>	<u>\$ 4,202,199</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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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. 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.

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.

**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.
- 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

**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 30, 2023 through January 3, 2025 (2024), and December 31, 2022 through December 29, 2023 (2023).

**Cash and Cash Equivalents**

The Organization classifies all highly liquid investments with maturities of three months or less from the balance sheet date, 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 2024 and 2023.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**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.

**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 2024 and 2023, the Organization did not receive refunds of taxes paid, nor pay/accrue any taxes owed.

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Restricted – Expendable Net Position**

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

The Organization has received donations with stipulations on how the funds should be used. 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 January 3, 2025 and December 29, 2023, of \$13.6 million and \$12.3 million, respectively. The Organization has restricted expendable net position related to deferred outflows – OPEB of \$0.4 million and \$0.6 million at January 3, 2025 and December 29, 2023, respectively. The Organization has restricted expendable net position related to deferred inflows – OPEB of \$2.2 million and \$1.6 million at January 3, 2025 and December 29, 2023, respectively. In addition, the Organization's net OPEB asset at January 3, 2025 and December 29, 2023, of \$3.9 million and \$2.7 million, 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.

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

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 34% of the Organization's contract revenues in 2024 and 37% in 2023.

### **Capital Gifts and Grants**

The Organization met commitments for capital projects, recognizing income of \$6.9 million from the State of Alabama and \$7.5 million from Jefferson County in 2024 and \$4.1 million from the State of Alabama and \$3.0 million from a research development partner in 2023.

### **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 \$16,233,000 and \$15,605,000 at January 3, 2025 and December 29, 2023, respectively. The Organization received approximately \$146,000 and \$144,000 from the Trust for the years ended January 3, 2025 and December 29, 2023, 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.

### **Use of Estimates**

The accompanying financial statements were prepared in conformity with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Fair Value Measurements**

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

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

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

- Level 1 – Inputs based on quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

- 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 were made in the prior year amounts to conform to the year financial statement presentation.

**New Accounting Standards**

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The Organization adopted the standard on December 30, 2023 and it did not have a material impact on the Organization's financial statements.

In January 2024, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. The Organization is evaluating whether there will be any material impact from its adoption of GASB No. 102.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The requirements for this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The objecting of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Organization is evaluating whether there will be any material impact from its adoption of GASB No. 103.

In September 2024, the GASB issued GASB statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34 and also requires additional disclosures for capital assets held for sale. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The Organization is evaluating whether there will be any material impact from its adoption of GASB No. 104.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through May 13, 2025, which is the date the financial statements were issued.

**3. CASH AND CASH EQUIVALENTS**

The carrying amount of cash balances at January 3, 2025, totaled \$4,066,897 (\$608,939 for 2023), and the bank balance was \$4,068,980 (\$857,969 for 2023). The bank balances were insured up to \$500,000 at January 3, 2025 and December 29, 2023. Cash equivalents at January 3, 2025 totaled \$38,477,597 (\$47,973,067 at December 29, 2023), 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.

**4. INVESTMENTS**

**Unrestricted Investments**

As of January 3, 2025, the Organization had unrestricted investments in equity mutual funds totaling \$4,690,069 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	\$ 3,042,874	\$ 3,042,874	\$ —	\$ —	\$ —
Mutual funds – bonds	48,309,694	41,326,060	2,768,648	2,266,476	1,948,510
	<b>\$ 51,352,568</b>	<b>\$ 44,368,934</b>	<b>\$ 2,768,648</b>	<b>\$ 2,266,476</b>	<b>\$ 1,948,510</b>

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

**Unrestricted Investments**

As of December 29, 2023, the Organization had unrestricted investments in equity mutual funds of \$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	—	—
	<b>\$ 104,831,436</b>	<b>\$ 102,942,796</b>	<b>\$ 1,888,640</b>	<b>\$ —</b>	<b>\$ —</b>

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 January 3, 2025, the Organization had restricted investments in equity mutual funds totaling \$8,176,274 and the following restricted cash and fixed-income investments with the maturities indicated:

Investment Type	<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>
Treasury securities	\$ 14,295	\$ 14,295	\$ —	\$ —	\$ —
Mutual funds – bonds	5,385,759	1,255,698	1,575,525	1,372,830	1,181,706
	<b>\$ 5,400,054</b>	<b>\$ 1,269,993</b>	<b>\$ 1,575,525</b>	<b>\$ 1,372,830</b>	<b>\$ 1,181,706</b>

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	<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>
Treasury securities	\$ 13,443	\$ 13,443	\$ —	\$ —	\$ —
Mutual funds – bonds	4,266,205	3,615,808	650,397	—	—
	<b>\$ 4,279,648</b>	<b>\$ 3,629,251</b>	<b>\$ 650,397</b>	<b>\$ —</b>	<b>\$ —</b>

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 January 3, 2025 and December 29, 2023, 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 January 3, 2025, the Organization had uncollateralized restricted cash and investments with Fidelity Investments (Fidelity) of \$13,576,328 (Endowment) and unrestricted cash and investments with Fidelity of \$94,413,727. 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.

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. The shares were sold in 2023.

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**4. INVESTMENTS**

***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.

The following fair value hierarchy table presents information about the Organization’s investments measured at fair value as of January 3, 2025:

	<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	\$ 7,070,218	\$ 7,070,218	\$ —	\$ —
International	3,709,752	3,709,752	—	—
Real estate	659,142	659,142	—	—
Liquid alternatives	371,604	371,604	—	—
Utilities	1,055,625	1,055,625	—	—
Fixed Income:				
Bond mutual funds:				
Short-term	48,647,818	48,647,818	—	—
International	5,047,632	5,047,632	—	—
U.S. Treasuries	3,042,874	3,042,874	—	—
<b>Total investments</b>	<b>\$ 69,604,665</b>	<b>\$ 69,604,665</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 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	\$ 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	—	—
Total investments	<b>\$ 121,789,264</b>	<b>\$ 121,789,264</b>	<b>\$ —</b>	<b>\$ —</b>

**5. ACCOUNTS RECEIVABLE**

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

	2024	2023
Billed	\$ 3,007,172	\$ 2,008,606
Unbilled	2,365,149	3,260,610
	5,372,321	5,269,216
Less allowances	(606,502)	(164,617)
	<b>\$ 4,765,819</b>	<b>\$ 5,104,599</b>

**6. NOTES 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 January 3, 2025.

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**7. OTHER RECEIVABLES**

At January 3, 2025, other receivables consisted primarily of amounts due from contribution and non-operating receivables. At December 29, 2023, other receivables consisted primarily of approximately \$6.9 million of capital gifts and grants. Contribution revenue and receivables are recorded when a donor makes a donation pledge.

**8. CAPITAL ASSETS**

Capital assets activity for the year ended January 3, 2025, is summarized below:

	Balance at December 29, 2023	Additions	Transfers	Retirements/ Reimbursements	Balance at January 03, 2025
Land	\$ 2,918,352	\$ —	\$ —	\$ —	\$ 2,918,352
Construction-in-progress	33,985,884	67,895,684	(16,412,245)	(1,977,859)	83,491,464
	36,904,236	67,895,684	(16,412,245)	(1,977,859)	86,409,816
Capital assets being depreciated:					
Land improvements	694,450	—	—	—	694,450
Buildings and major plant equipment	30,723,916	5,834	14,802,250	(38,646)	45,493,354
Laboratory equipment and fixtures	36,533,320	767,992	1,535,299	(1,043,430)	37,793,181
Office furniture and equipment	2,122,920	29,750	74,696	—	2,227,366
Right of use assets - SBITAs	2,385,532	495,576	—	(363,119)	2,517,989
	72,460,138	1,299,152	16,412,245	(1,445,195)	88,726,340
	109,364,374	69,194,836	—	(3,423,054)	175,136,156
Less accumulated depreciation	(59,245,439)	(3,836,316)	—	1,148,179	(61,933,576)
	50,118,935	65,358,520	—	(2,274,875)	113,202,580
Intangibles	2,689,157	271,898	—	(978,048)	1,983,007
Less accumulated amortization	(783,960)	(167,761)	—	372,477	(579,244)
	1,905,197	104,137	—	(605,571)	1,403,763
	<b>\$ 52,024,132</b>	<b>\$ 65,462,657</b>	<b>\$ —</b>	<b>\$ (2,880,446)</b>	<b>\$ 114,606,343</b>

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**8. CAPITAL ASSETS**

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

	Balance at December 30, 2022	Additions	Transfers	Retirements/ Reimbursements	Balance at December 29, 2023
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
	<b>\$ 23,871,745</b>	<b>\$ 31,301,509</b>	<b>\$ —</b>	<b>\$ (3,149,122)</b>	<b>\$ 52,024,132</b>

Depreciation expense for the years ended January 3, 2025 and December 29, 2023, was \$3,158,042 and \$2,634,331, respectively.

Amortization expense for the years ended January 3, 2025 and December 29, 2023, was \$846,035 and \$778,518, respectively.

**9. ACCRUED LIABILITIES**

Accrued liabilities are summarized as follows at year-end:

	2024	2023
Payroll related payables	\$ 1,970,695	\$ 1,733,773
Intellectual property awards accrual	152,376	512,213
Healthcare obligations	128,550	186,800
Other accrued expenses - construction	2,970,144	974,760
Other accrued expenses - other	1,497,690	870,357
	<b>\$ 6,719,455</b>	<b>\$ 4,277,903</b>

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**10. UNEARNED REVENUES**

The composition of unearned revenues as of January 3, 2025 and December 29, 2023, was as follows:

	<u>2024</u>	<u>2023</u>
State of Alabama - ARPA funds	\$ 15,402,246	\$ 16,684,009
City of Birmingham - ARPA funds	4,535,785	—
Alabama Innovation funds	3,703,978	—
Jefferson County	—	5,000,000
Charges for services paid in advance	7,311,669	14,893,132
	<u>\$ 30,953,678</u>	<u>\$ 36,577,141</u>

The American Rescue Plan Act (ARPA) (see disclosure number 20) grant documents do not require unspent funds to be held in a separate bank account and since the revenue is not earned, it is not a component of net position.

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. As of the end of 2023, the Organization had received 2 installments and had not yet secured the City funds, therefore, revenue was not yet earned on the funds. During 2024, the Organization secured \$5.0 million of Catalyst funds from the City of Birmingham, thus fully satisfying the funding terms with Jefferson County, of which the final installment was received in 2024 and all revenue was recognized. The City of Birmingham funds are for salaries and/or programmatic expenses related to the Catalyst project.

The Organization is participating in the Innovate Alabama Tax Credit program as a qualifying economic development organization (EDO) and received the second round of contributions during 2024. This program was created under the Innovating Alabama Act under which taxpayers can contribute funds to a qualifying EDO and receive a dollar-for-dollar state tax credit. During 2024 and 2023, the Organization received \$2.9 million and \$2.6 million, respectively, in Innovate Alabama contributions. Revenues on these contributions are recognized as costs are incurred.

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**11. INSURANCE**

For the year ended December 29, 2023, the Organization was self-insured for employees' healthcare and dental coverage with a \$1,500 annual maximum per covered employee for dental. The Organization had 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.

The Organization went from being self-insured for employee's healthcare in 2023 to fully insured in 2024.

**12. 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 2024 and 2023. 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 January 3, 2025, is summarized as follows:

	<b>Balance at December 29, 2023</b>	<b>Additions</b>	<b>Payments/ Reductions</b>	<b>Balance at January 03, 2025</b>	<b>Due Within One Year</b>
Lease obligations	\$ 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	8,778,514	—	(830,000)	7,948,514	790,000
SBITA Obligations, 1.57% to 4.59% due annually through 2027	1,077,650	495,576	(682,580)	890,646	324,027
	<b><u>\$ 9,886,366</u></b>	<b><u>\$ 495,576</u></b>	<b><u>\$ (1,542,782)</u></b>	<b><u>\$ 8,839,160</u></b>	<b><u>\$ 1,114,027</u></b>

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**12. LONG-TERM DEBT**

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

	Balance at December 30, 2022	Additions	Payments/ Reductions	Balance at December 29, 2023	Due Within One Year
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>

Maturities of long-term debt after 2024 are as follows:

**Business-Type Activities Recovery Zone Facility Bonds**

Maturing	Rate	Amount of Maturity	Amount of Interest
2025	3.05 %	\$ 790,000	\$ 214,415
2026	3.05 %	840,000	209,447
2027	3.05 %	6,318,514	140,154
		<u>\$ 7,948,514</u>	<u>\$ 564,016</u>

**SBITA Obligations**

Maturing	Principal	Interest	Total
2025	\$ 324,027	\$ 15,335	\$ 339,362
2026	463,118	8,966	472,084
2027	103,501	1,129	104,630
	<u>\$ 890,646</u>	<u>\$ 25,430</u>	<u>\$ 916,076</u>

The Organization incurred interest expense of \$0.4 million and \$0.3 million during 2024 and 2023, respectively.

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**13. NOTE PAYABLE**

On September 27, 2017, the Organization entered into a one-year \$3.0 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 29, 2023, the outstanding balance of the note payable was \$819,625. The Organization renewed the agreement on December 19, 2024, with a maturity of December 31, 2025. As of January 3, 2025, there was no outstanding balance on the note payable.

Note payable activity for the year ended January 3, 2025, is summarized as follows:

	Balance at December 29, 2023	Additions	Payments/ Reductions	Balance at January 03, 2025	Due Within One Year
Note payable	\$ 819,625	\$ 1,863,111	\$ (2,682,736)	\$ —	\$ —
	<u>\$ 819,625</u>	<u>\$ 1,863,111</u>	<u>\$ (2,682,736)</u>	<u>\$ —</u>	<u>\$ —</u>

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

	Balance at December 30, 2022	Additions	Payments/ Reductions	Balance at December 29, 2023	Due Within One Year
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>

**14. 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 dependents 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. Retirees' spouses and eligible children who are not Medicare-eligible may continue coverage under Southern Research's medical and dental insurance plans even though the retiree is ineligible, subject to the definition of "eligible dependent" under the medical and/or dental insurance plan. The coverage period available for life insurance extends from the date of retirement through the age of 70.

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

*Employees covered by benefit terms*

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

<u>Date of Hire</u>	<u>Minimum Age and Service</u>
January 1, 2014, and after	59.5 with 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, 2024, the most recent actuarial valuation date, the Plan had 22 retirees and beneficiaries receiving benefits. The Plan had a total of 221 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.

**Net OPEB Liability (Asset)**

The Organization’s net OPEB liability (asset) was measured as of December 31, 2024, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of January 1, 2024.

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

*Actuarial assumptions* – The total OPEB liability in the January 1, 2024 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 0.25% per year to 6%, then by 0.2% per year to 5%, then by 0.1% per year to an ultimate rate of 4.5% (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
Age-adjusted Medical Premiums	Developed based on active rates demographically adjusted to an age 65 cost. Pre-Medicare medical, \$16,665, Dental, \$804
Aging	Rates at sample ages range from 0.8144% at age 50 to 1.4599% at age 64.
Annual Per Capita Retiree Contributions	Medical: single, \$4,356; retiree and spouse, \$8,232 Dental: single, \$118; retiree and spouse \$311

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**14. 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 29, 2023	\$ 1,526,693	\$ 4,202,199	\$ (2,675,506)
Service cost	60,258	—	60,258
Interest cost	47,018	—	47,018
Differences between expected and actual experience	(732,652)	—	(732,652)
Change of assumptions	(180,043)	—	(180,043)
Net investment gain	—	375,461	(375,461)
Benefit payments	(57,209)	—	(57,209)
Administrative expense	—	—	—
Net change	<u>(862,628)</u>	<u>375,461</u>	<u>(1,238,089)</u>
Fiscal year ended January 3, 2025	<u><b>\$ 664,065</b></u>	<u><b>\$ 4,577,660</b></u>	<u><b>\$ (3,913,595)</b></u>

	<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><b>\$ 1,526,693</b></u>	<u><b>\$ 4,202,199</b></u>	<u><b>\$ (2,675,506)</b></u>

*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	\$ 709,858	\$ 644,065	\$ 622,727
Total OPEB Liability (1% increase in healthcare cost rate)	\$ 781,385	\$ 727,644	\$ 679,413
Total OPEB Liability (1% decrease in healthcare cost rate)	\$ 648,184	\$ 608,943	\$ 573,321

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

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

For the years ended January 3, 2025 and December 29, 2023, the Plan recognized OPEB income of \$449,360 and \$268,424, 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 January 3, 2025, 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	\$ 121,100	\$ 1,821,487
Differences between expected and actual investment earnings	25,962	157,081
Changes of assumptions or other inputs	253,218	226,393
<b>Total</b>	<b>\$ 400,280</b>	<b>\$ 2,204,961</b>

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:

2025	\$ (300,100)
2026	(260,469)
2027	(377,725)
2028	(334,034)
2029	(276,056)
Thereafter	(256,297)
	<u>\$ (1,804,681)</u>

**Investments**

As of January 3, 2025, the Plan had investments in equity mutual funds totaling \$2,492,709 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	\$ 10,852	\$ 10,852	\$ —	\$ —	\$ —
Mutual funds – bonds	2,074,100	699,256	509,955	465,692	399,197
	<b>\$ 2,084,952</b>	<b>\$ 710,108</b>	<b>\$ 509,955</b>	<b>\$ 465,692</b>	<b>\$ 399,197</b>

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

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	—	—
	<b>\$ 1,881,322</b>	<b>\$ 1,631,825</b>	<b>\$ 249,497</b>	<b>\$ —</b>	<b>\$ —</b>

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

*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 January 3, 2025 and December 29, 2023. 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 January 3, 2025, the Plan had uncollateralized cash and investments with Fidelity Investments of \$4.6 million (\$4.2 million at December 29, 2023).

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

The following fair value hierarchy table presents information about the Organization's investments measured at fair value as of January 3, 2025:

	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	\$ 1,362,258	\$ 1,362,258	\$ —	\$ —
International	709,085	709,085	—	—
Real estate	116,208	116,208	—	—
Liquid alternatives	113,664	113,664	—	—
Utilities	191,494	191,494	—	—
Fixed Income:				
Bond mutual funds:				
Short-term	1,292,919	1,292,919	—	—
International	781,181	781,181	—	—
<b>Total investments</b>	<b>\$ 4,566,809</b>	<b>\$ 4,566,809</b>	<b>\$ —</b>	<b>\$ —</b>

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	—	—
<b>Total investments</b>	<b>\$ 4,194,947</b>	<b>\$ 4,194,947</b>	<b>\$ —</b>	<b>\$ —</b>

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**15. OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended January 3, 2025, are as follows:

	<b>Salaries, Wages, and Benefits</b>	<b>Supplies and Services</b>	<b>Depreciation</b>	<b>Total</b>
Research	\$ 18,701,090	\$ 14,166,748	\$ 1,612,351	\$ 34,480,189
Institutional Support	4,551,203	2,990,059	228,367	7,769,629
Operation & Maintenance of Plant	1,883,201	3,072,052	2,163,359	7,118,612
Total	<b>\$ 25,135,494</b>	<b>\$ 20,228,859</b>	<b>\$ 4,004,077</b>	<b>\$ 49,368,430</b>

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	2,276,766	3,115,351	897,407	6,289,524
Total	<b>\$ 28,673,775</b>	<b>\$ 23,385,057</b>	<b>\$ 3,412,849</b>	<b>\$ 55,471,681</b>

Amounts are allocated based on management's best estimate.

**16. EMPLOYEE BENEFIT PLAN**

The Organization has a defined contribution retirement plan available to all employees after they have attained certain age and service requirements. The provisions of the plan are established by and may be amended by the Organization. Employees may contribute a percentage of their pretax salary, not to exceed the maximum allowed under the Internal Revenue Code. Contributions by employees are matched in accordance with the plan agreements and totaled \$1,191,570 and \$780,685 for the years ended January 3, 2025 and December 29, 2023, respectively. Total employer contributions, including matching and discretionary contributions, for the years ended January 3, 2025 and December 29, 2023, amounted to \$690,415 and \$1,510,796, respectively, for this plan. The Organization suspended the discretionary component of the Plan in 2024.

The Organization has the ability to fund the employer contributions to the Plan utilizing the balance available within the Plan's forfeiture account. The Organization used \$144,044 and \$105,487 of the Plan's forfeitures to fund employer contributions for the years ended January 3, 2025 and December 29, 2023, respectively.

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**17. 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 \$2.7 million during 2024 and \$6.6 million during 2023. Expenses paid to UAB totaled \$2.7 million during 2024 and \$1.9 million during 2023. Accounts receivable from UAB were \$0.3 million at January 3, 2025, and \$1.0 million at December 29, 2023. Accounts payable to UAB were \$0.3 million at January 3, 2025, and \$0.2 million at December 29, 2023.

**18. COMMITMENTS AND CONTINGENCIES**

At January 3, 2025, commitments for capital expenditures totaled approximately \$28.7 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.

**19. 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.

**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 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.

In May of 2024, the Organization entered into a memorandum of understanding with the City of Birmingham for the award to the Organization of \$5 million of Coronavirus State Fiscal Recovery Funds. The Recovery Funds were provided to the City through the State by the United States Government under the American rescue Plan Act (ARPA).

Through the fiscal year ended January 3, 2025, the Organization had expended \$5.1 million 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 January 3, 2025 and December 29, 2023, reduced by amounts not available for general expenditures due to donor-imposed restrictions or board designations.

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 42,544,494	\$ 48,582,006
Investments	56,042,637	109,464,611
Restricted cash and investments	<u>13,576,328</u>	<u>12,338,096</u>
	112,163,459	170,384,713
Less: Cash, cash equivalents and investments unavailable for general expenditures within one year:		
Donor purpose restrictions	23,642,009	55,232,761
Board designated restrictions for capital projects	57,918,942	93,003,867
Segregated donor purpose restricted cash and investments	<u>13,576,328</u>	<u>12,338,096</u>
Cash, cash equivalents and investments available to meet cash needs for general expenditures	<u>\$ 17,026,180</u>	<u>\$ 9,809,989</u>

For fiscal years ended 2024 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.

**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)**

(Dollars in thousands)	<u>2024</u>	<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>
<b>TOTAL OPEB LIABILITY</b>										
Service cost	\$ 60,258	\$ 70,006	\$ 119,760	\$ 97,986	\$ 115,865	\$ 108,284	\$ 123,141	\$ 144,932	\$ 137,234	\$ 150,288
Interest	47,018	87,782	126,879	131,985	135,840	153,177	175,563	207,648	207,519	191,972
Differences between expected and actual experience	(732,652)	156,582	(321,359)	(289,078)	(463,443)	(351,911)	(757,837)	(180,239)	(151,861)	—
Change in assumptions	(180,043)	—	(827,797)	(1,388)	(2,600)	9,334	—	61,689	16,769	—
Benefit payments	(57,209)	—	—	—	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)	(73,259)
Net change in total OPEB liability	(862,628)	314,370	(902,517)	(60,495)	(241,023)	(360,572)	(496,757)	24,194	140,728	269,001
Total OPEB liability – beginning	1,526,693	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
Total OPEB liability – ending (A)	<b>\$ 664,065</b>	<b>\$ 1,526,693</b>	<b>\$ 1,212,323</b>	<b>\$ 2,114,840</b>	<b>\$ 2,175,335</b>	<b>\$ 2,416,358</b>	<b>\$ 2,776,930</b>	<b>\$ 3,273,687</b>	<b>\$ 3,249,493</b>	<b>\$ 3,108,765</b>
<b>OPEB FIDUCIARY NET POSITION</b>										
Contributions	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net investment income	375,461	411,452	(364,848)	437,851	172,707	493,564	(186,063)	393,811	266,803	(70,464)
Benefit payments	—	—	—	—	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)	(73,259)
Administrative expense	—	(5,624)	(7,187)	(10,063)	(9,196)	(10,840)	(9,707)	(8,505)	(6,363)	(13,924)
Other – transfer	—	—	—	—	—	—	—	—	—	(1,876,015)
Net change in plan fiduciary net position	375,461	405,828	(372,035)	427,788	136,826	203,268	(233,394)	175,470	191,507	(2,033,662)
Plan fiduciary net position – beginning	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
Plan fiduciary net position – ending (B)	4,577,660	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
NET OPEB LIABILITY (ASSET) (A) – (B)	\$(3,913,595)	\$(2,675,506)	\$(2,584,048)	\$(2,053,566)	\$(1,565,283)	\$(1,187,434)	\$(623,594)	\$(360,231)	\$(208,955)	\$(158,176)
COVERED EMPLOYEE PAYROLL	\$18,879,143	\$17,436,442	\$29,028,726	\$26,700,334	\$29,759,949	\$28,369,118	\$34,617,175	\$35,634,834	\$32,995,019	\$32,880,000
NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL	(20.73)%	(15.34)%	(8.90)%	(7.69)%	(5.26)%	(4.19)%	(1.80)%	(1.01)%	(0.63)%	(0.48)%
NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	689.34 %	275.25 %	313.15 %	197.10 %	171.96 %	149.14 %	122.46 %	111.00 %	106.43 %	105.09 %

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 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 0.25% per year to 6%, then by 0.2% per year to 5%, then by 0.1% per year to an ultimate rate of 4.5% (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
Age-adjusted Medical Premiums	Developed based on active rates demographically adjusted to an age 65 cost. Pre-Medicare medical, \$16,665, Dental, \$804
Aging	Rates at sample ages range from 0.8144% at age 50 to 1.4599% at age 64.
Annual Per Capita Retiree Contributions	Medical: single, \$4,356; retiree and spouse, \$8,232 Dental: single, \$118; retiree and spouse \$311

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 JANUARY 3, 2025**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	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	SLT-5312	\$ 3,423,410	\$ -
City of Birmingham	21.027	SLRF 00016	464,215	-
<b>Total Department of Treasury</b>			<b>3,887,625</b>	<b>-</b>
<b>Research and Development Cluster:</b>				
<b><u>Department of Commerce</u></b>				
<b>Direct</b>				
Department of Commerce	11.020		242,589	-
<b>Total Department of Commerce</b>			<b>242,589</b>	<b>-</b>
<b><u>Department of Defense</u></b>				
<b>Direct</b>				
Department of Defense	12.420		307,345	-
<b>Pass-Through</b>				
The University of North Carolina at Chapel Hill	12	0000884661	932,338	-
Vaxsyna, Inc.	12	HT94252310708	58,625	-
<b>Total Department of Defense</b>			<b>1,298,308</b>	<b>-</b>
<b><u>Department of Energy</u></b>				
<b>Pass-Through</b>				
Southern Company Services, Inc.	81	DE-NT000749	622,712	-
<b>Total Department of Energy</b>			<b>622,712</b>	<b>-</b>
<b><u>U.S. Environmental Protection Agency</u></b>				
<b>Direct</b>				
U.S. Environmental Protection Agency	66.034		9,288	-
<b>Total U.S. Environmental Protection Agency</b>			<b>9,288</b>	<b>-</b>
<b><u>Department of Health and Human Services</u></b>				
<b>Direct</b>				
National Institute on Drug Abuse	93		4,000	-
Biomedical Advanced Research	93		869	-
National Cancer Institute	93		3,000	-
National Institute of Allergy and Infectious Diseases	93		173,431	-
National Institute of Allergy and Infectious Diseases	93		2,500	-
National Institute of Allergy and Infectious Diseases	93		452	-
National Institute of Allergy and Infectious Diseases	93		205,900	-
National Institute of Allergy and Infectious Diseases	93		113,597	-
National Institute of Arthritis and Musculoskeletal and Skin Diseases	93.846		834,436	-
National Center for Advancing Translational Sciences	93		29,291	-
National Institute on Drug Abuse	93.279		644,124	143,186
National Institute of Allergy and Infectious Diseases	93		241,508	-
National Institute of Allergy and Infectious Diseases	93		242,073	-

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 JANUARY 3, 2025**

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Identifying Number	Federal Expenditures	Passed Through to Subrecipients
<b>Pass-Through:</b>				
University of Alabama at Birmingham	93.866	1R01AG081433-01	42,284	-
Oregon Health & Science University	93	75N93023C00002	136,384	-
Biofactura, Inc.	93	75A50119C00054	1,744	-
University of Alabama at Birmingham	93.113	1U54ES030246-01	6,952	-
University of Alabama at Birmingham	93.855	1U19A142759-01	916,536	-
University of Alabama at Birmingham	93.350	1UL1TR003096-01	26,847	-
SIGA Technologies, Inc.	93	P21.0351R1	21,453	-
University of Tennessee Health Science Center	93.395	1R01CA266207-01A1	393,011	-
Geovax, Inc.	93	75A50123D00005	82,637	-
Geovax, Inc.	93	75A50123D00005	15,572	-
Stanford University	93	UG3NS115637	51,335	-
Biofactura, Inc.	93	75A50119C00054	167,827	-
Cambium Oncology, LLC	93	P24.4970	5,510	-
University of Alabama at Birmingham	93.350	1UM1TR004771-01	51,122	-
<b>Total Department of Health &amp; Human Services</b>			<b>4,414,395</b>	<b>143,186</b>
<b>Total Research and Development Cluster</b>			<b>6,587,292</b>	<b>143,186</b>
<b>Grand Total</b>			<b>\$ 10,474,917</b>	<b>\$ 143,186</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 JANUARY 3, 2025**

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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 January 3, 2025. 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 January 3, 2025, 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 13, 2025.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Southern Research Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warren Averett, LLC*

Birmingham, Alabama

May 13, 2025

**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 January 3, 2025. 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 January 3, 2025.

***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.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not

identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Warren Averett, LLC*

Birmingham, Alabama  
May 13, 2025

**SOUTHERN RESEARCH INSTITUTE  
 (A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JANUARY 3, 2025**

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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 \_\_\_\_\_ No  X

Significant deficiencies identified? Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? Yes \_\_\_\_\_ No  X

**Federal Awards**

Internal control over major programs

Material weakness(es) identified? Yes \_\_\_\_\_ No  X

Significant deficiencies identified? Yes \_\_\_\_\_ None reported

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

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

Identification of major programs:

<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 \_\_\_\_\_ No  X

**SOUTHERN RESEARCH INSTITUTE  
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JANUARY 3, 2025**

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

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the Schedule that are required to be reported in accordance with *Government Auditing Standards*.

None noted.

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

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the major federal programs that are required to be reported in accordance with the Uniform Guidance.

None noted.



**SOUTHERN RESEARCH INSTITUTE  
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JANUARY 3, 2025**

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

**Current Status:** The organization has added several key leadership positions and implemented regular weekly C-Suite meetings to enhance communication across all departments. A Business Process Review was completed by external consultants. Recommended controls and process improvements to address high risk findings have been implemented with remaining recommendations in the process of finalization. This finding did not reoccur.

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

**Current Status:** An updated signature matrix has been approved by the SR Board of Directors that clearly defines the scope and limitations to which specific individuals can commit or expend company funds. As mentioned above, controls and process improvements to address high risk findings have been implemented, including the creation and distribution of a comprehensive employee handbook. Other policies are in the process of finalization. Additionally, the organization has created an ethics hotline for the reporting of employee concerns. This finding did not reoccur.

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

**Current Status:** Southern Research has identified all active federal awards subject to Federal procurement requirements under 2 CFR Part 200 and is including appropriate flow down clauses and performing procedures to ensure that subcontract prices are fair and reasonable. We have contracted with an expert who has reviewed all procurement policies and procedures to ensure they are comprehensive and in full compliance with relevant FAR and CFR clauses. A new Director of Contracts and Procurement with extensive FAR and CFR experience has been hired. Additionally, all key policies and procedures have been updated and personnel have been trained, with remaining policies under development. This finding did not reoccur.