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

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION, AND SINGLE AUDIT REPORT

JANUARY 2, 2026 AND JANUARY 3, 2025

Warren Averett
CPAs AND ADVISORS
www.warrenaverett.com

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

SOUTHERN RESEARCH INSTITUTE
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TABLE OF CONTENTS
JANUARY 2, 2026 AND JANUARY 3, 2025

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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 2, 2026 and January 3, 2025, 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 2, 2026 and January 3, 2025, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the financial information of 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 2, 2026 and January 3, 2025, 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 45-46 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 5, 2026, 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, AL
May 5, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Southern Research Institute (the Organization) as of January 2, 2026 and January 3, 2025 and for the fiscal years then ended. It is intended to assist readers in understanding the Organization’s financial position, changes in financial position and significant factors affecting operations. This MD&A is prepared in accordance with GASB Statement No. 103, Financial Reporting Model Improvements, which emphasizes a clear, analytical discussion of financial performance, significant changes from prior periods, and identification of unusual or infrequent items. The discussion should be read in conjunction with the accompanying financial statements and related notes.

The Organization operates on a 52/53-week fiscal year, with the fiscal year-end on the Friday nearest December 31. The accompanying financial statements cover the period from January 4, 2025 through January 2, 2026 (2025) and December 30, 2023 through January 3, 2025 (2024).

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 on pages 20 and 21. The OPEB trust fund does not issue separate annual audited 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.

Financial Summary and Detailed Analysis

The Organization’s operations consist of the following product lines and activities:

Preclinical Services (PCS) – PCS is the Organization's largest component business line employing 58% of the Organization's FTEs and providing 71% of its revenues in 2025. PCS primary revenue streams derive from contracts with both government funded and commercial customers for Contract Research Organization (CRO) services that bridge a therapeutic from discovery to readiness for clinical trial. These services cross a range of therapeutic areas and services, but most recently have been highly concentrated in infectious disease research.

Catalyst – The Catalyst program is designed to collect genomic and health information from individual participants across the state of Alabama. The program seeks to improve health outcomes for its participants by providing important health data that can be used by participants and their health care providers to improve treatment outcomes and identify opportunities to participate in clinical trials. The program was initially funded by State and City allocations of grants received under the American Rescue Plan Act (ARPA). The funding for this program commenced in 2023, and will expire in 2026.

Station 41 – Station 41 is an incubator program designed to lease laboratory space and provide other assistance to early stage biotechnology companies. The program receives funding through Innovate Alabama to support operating costs and provide funding for resident companies for their research activities. The goal of the program is to support development of these companies with the long-term objective of creating companies and jobs that will benefit the economy of the City of Birmingham.

STEM – STEM is a state funded program providing educational opportunities for K-12 students and educators across Alabama. The program fosters the next generation of scientists, engineers, and entrepreneurs by providing a unique blend of meaningful real-world experiences that ignite a passion for discovery.

Below are significant events that impacted the Organization's financial results and net position during the 2025 fiscal year:

- A multi-year master campus plan project (MCP) to update and expand the Organization’s footprint was completed in 2025. This project saw the investment of $116.5 million over three years to address aging infrastructure, modernize lab spaces, and expand capabilities. The MCP culminated with the completion of a new research building (NRB) in August 2025.

- Pre-clinical services (PCS) revenues increased $2.9 million (12%) as compared to 2024 despite a $0.9 million reduction in government funded contracts and grants. While grant funded research has been on continuous decline for several years, revenues from commercial pre-clinical research contracts have increased. Revenues from commercial projects increased approximately $3.8 million in 2025 as compared to 2024. The EBITDA loss from operations (excluding IP income) for PCS improved $1.5 million in 2025 to $12.1 million compared to $13.6 million EBITDA loss in 2024.

- Revenues recognized in the Organization’s Catalyst program increased $4.1 million to $8.0 million as compared to 2024. The program is funded through 2026 by the State and City allocated funding from the American Rescue Plan Act (ARPA) and aims to improve the health of Alabama citizens by providing participants genomic and other actionable data when making personal health decisions. The 2025 improvement reflects increased spending on marketing and data infrastructure required to grow participation rates. The number of registered participants grew from no participants at the beginning of the year to 1,377 individuals by January 2, 2026 and has continued to grow at an accelerated pace into 2026.

Significant financial statement changes in 2025 and 2024 are summarized below:

- **Total Assets** decreased by $25.4 million (11%) to $213.0 million in 2025, and decreased by $3.2 million (1%) to $238.3 million in 2024. The decrease in 2025 was mainly driven by operating losses and consumption of ARPA funding for the Catalyst program and a net increase in working capital. Both 2025 and 2024 saw significant shifts from current to capital assets as a result of the MCP project to expand and modernize campus facilities. Current Assets decreased by $49.6 million (44%) to 63.2 million in 2025 and decreased by $72.1 million (39%) to $112.8 million in 2024. Capital Assets increased by $19.5 million (17%) in 2025 and $62.6 million in 2024.
- **Total Liabilities** decreased by $15.1 million (27%) to 39.9 million in 2025 and decreased by $6.6 million (11%) to $55.0 million in 2024. The decreases in both years were the result of reductions in unearned revenues mainly due to consumption of ARPA funding for the Catalyst program as well as scheduled payments of long-term debt. In addition, year end accounts payable in connection with construction activities decreased in 2025 compared to 2024.
- **Net Position** decreased by $10.2 million (6%) to $171.4 million in 2025 and increased by $2.7 million (2%) to $181.6 million in 2024. The decrease in 2025 was primarily the result of operating losses partially offset by non-operating income from interest and dividends and fair market value gains on investments. The increase in 2024 resulted from $14.1 million in grants received for construction of the NRB along with investment earnings, which offset $17.6 million in operating losses.
- **Operating revenues** increased by $5.9 million (19%) in 2025 driven mainly by increases in PCS commercial revenues and Catalyst grant funded revenues. In 2024 total revenues decreased $7.0 million (18%) as PCS clinical services began to shift focus from grant funded research to CRO services.
- **Operating losses** decreased by $1.9 million in 2025 due to increased revenues from PCS and Catalyst and cost reductions from a 2024 reduction in force. Operating losses in 2024 exceeded 2023 losses by $0.9 million due to a 20% reduction in revenues partially offset by cost reductions in 2024.
- **Capital gifts and grants** decreased by $14.1 million in 2025 due to exhaustion in the prior year of grant funds for the MCP.

STATEMENTS OF NET POSITION 2025

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.

Changes in the Organization's net position in 2025 and 2024 reflect significant investments in facilities and infrastructure resulting in a significant shift from liquid investments to capital assets. The Organization has also been required to fund operating losses resulting from declining grant funded research and a shift toward commercial preclinical services. ARPA funding received in 2023 is being utilized to build the Organization's Catalyst program which experienced substantial growth in 2025.

A summarized comparison of the Organization's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at January 2, 2026 and January 3, 2025, is as follows:

	2025	2024	$ Change	% Change
Current assets	$ 63,233,373	$ 112,834,340	$ (49,600,967)	(44)%
Capital assets, net	134,135,580	114,606,343	19,529,237	17 %
Noncurrent assets, other	15,610,295	10,897,229	4,713,066	43 %
Deferred outflows of resources	256,549	400,280	(143,731)	(36)%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 213,235,797**	**$ 238,738,192**	**$ (25,502,395)**	**(11)%**
Current liabilities	$ 33,339,213	$ 47,235,840	$ (13,896,627)	(29)%
Noncurrent liabilities	6,515,898	7,725,133	(1,209,235)	(16)%
Deferred inflows of resources	2,017,508	2,204,961	(187,453)	(9)%
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 41,872,619**	**$ 57,165,934**	**$ (15,293,315)**	**(27)%**
NET POSITION				
Net investment in capital assets	$ 122,230,739	$ 102,797,039	$ 19,433,700	19 %
Restricted:				
Expendable	17,221,033	15,627,873	1,593,160	10 %
Unrestricted	31,911,406	63,147,346	(31,235,940)	(49)%
TOTAL NET POSITION	**$ 171,363,178**	**$ 181,572,258**	**$ (10,209,080)**	**(6)%**

Net position decreased $10.2 million from $181.6 million at January 3, 2025, to $171.4 million at January 2, 2026. This decrease is a result of a $15.7 million net operating loss offset by nonoperating revenue of $5.5 million primarily comprised of interest and dividends on investments.

Current assets decreased $49.6 million in 2025 comprised of the following:

- Cash and cash equivalents decreased from $42.5 million at the beginning of the year to $12.8 million at year-end. Negative cash flows from operations were $26.9 million resulting from operating losses, consumption of ARPA funding and increases in working capital. Capital and related financing activities, primarily related to the completion of the MCP and other capital expenditures, totalled $26.7 million. Cash used in operations and for fixed asset acquisitions was partially offset by positive cash flows from investing activities of $23.1 million.
- Investments (restricted and unrestricted), short-term and long-term, decreased from $69.6 million at January 3, 2025, to $52.0 million at January 2, 2026, mainly due to funding the MCP and operating losses. Interest and dividend income reinvested totaled $3.4 million, market gains totaled $1.7 million and net transfers to operations were approximately $50.0 million.
- Accounts receivable increased by 49%, with the 2025 year-end balance of $7.1 million. The increase comprises a $2.4 million increase in billed accounts receivable driven by the timing of milestone payments under firm-fixed-price contracts net of a $0.7 million increase in allowances. Unbilled accounts receivable increased by 28%
- Other receivables decreased 40% from the January 3, 2025 balance of $1.0 million, resulting principally from a reduction in receivables from intellectual property income.

- Prepayments and other current assets decreased by 29% from January 3, 2025 to January 2, 2026, due to replacement of high cost on premise software with Software as a Service (SaaS) solutions.

Noncurrent investments increased by 54% by changing the maturities of treasury notes to align with the spend plan for capital investments.

Deferred outflows of resources and deferred inflows of resources resulted from differences between actual and expected experience and earnings on investments related to OPEB.

The Organization invested $24.7 million in capital assets in 2025 primarily related to the completion of the MCP and other investments in equipment and infrastructure. After disposals, depreciation and amortization expense, net capital assets increased $19.5 million to $134.1 million at 2025 year-end.

Current liabilities decreased by 29% during the year from beginning balances of $47.2 million to $33.3 million. The 29% net decrease in total current liabilities comprised a 76% decrease in accounts payable to a year-end balance of $2.1 million, a 4% increase in accrued liabilities to a year-end balance of $7.0 million and a 26% decrease in unearned revenue from the beginning balance of $31.0 million. The decrease in accounts payable is a result of payables related to construction projects for the MCP decreasing with the project nearing its completion. The increase in accrued liabilities is a result of the MCP retainage. The decrease in unearned revenue is a result of requirements for contributions being met and earned in 2025 and consumption of ARPA funding in the Catalyst program.

Noncurrent liabilities decreased by 16% or $1.2 million due to scheduled repayments of long-term debt and a reduction in Subscription Based Information Technology Arrangement (SBITA) obligations.

Restricted – expendable net position increased by $1.6 million due to an increase in restricted cash and investments of $0.5 million, an increase in net OPEB asset of $1.0 million, offset by a $0.1 million decrease in deferred outflows – OPEB, and an increase in deferred inflows – OPEB of $0.2 million.

STATEMENTS OF NET POSITION 2024

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:

	2024	2023	$ Change	% Change
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)%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 238,738,192	$ 242,110,174	$ (3,371,982)	(1)%
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 %
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 57,165,934	$ 63,239,300	$ (6,073,366)	(10)%
NET POSITION				
Net investment in capital assets	$ 102,797,039	$ 42,137,766	$ 60,659,273	144 %
Restricted:				
Expendable	15,627,873	13,940,441	1,687,432	12 %
Unrestricted	63,147,346	122,792,667	(59,645,321)	(49)%
TOTAL NET POSITION	$ 181,572,258	$ 178,870,874	$ 2,701,384	2 %

Net position increased from $178.9 million at December 29, 2023, to $181.6 million at January 3, 2025. 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 to expenditures supporting the MCP and to fund operating losses. Interest and dividend income reinvested totaled $5.7 million, market gains totaled $2.2 million and net transfers to operations were $69.5 million.
- 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, offset by positive cash flows from investing activities of $61.1 million.
- Accounts receivable increased 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 an 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 28%

- A note receivable for $0.7 million 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 maturities of the treasury notes to align with the spend plan for capital investments.

Deferred outflows of resources and deferred inflows of resources resulted from differences between actual and expected experience and earnings on investments related to OPEB.

The Organization invested $69.0 million in capital assets in 2024, primarily in connection with MCP projects. After disposals, depreciation and 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 MCP decreasing with the MCP nearing its completion. The increase in accrued liabilities is a result of the MCP 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 scheduled repayments of debt and SBITA obligations.

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.

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. The difference between revenues and expenses results ina change in net position from one year to the next.

Primary sources of operating revenues consist of revenues from contract research, grant funded programs (i.e. Catalyst and STEM), and intellectual property revenues, net of direct expenses. Operating expenses are those expenses necessary to conduct contract research, support direct costs of grant funded programs, generate and protect the Organization’s intellectual property, and to pay for general overhead, facility costs and support functions.

Comparative statements of revenues, expenses and changes in net position for 2025 and 2024 are as follows:

	Year Ended 2025	Year Ended 2024	$ Change	% Change
Operating revenues	$ 37,676,793	$ 31,806,216	$ 5,870,577	18 %
Operating expenses	53,385,341	49,368,430	4,016,911	8 %
Operating loss	(15,708,548)	(17,562,214)	1,853,666	11 %
Noncapital subsidies	722,221	160,933	561,288	349 %
Nonoperating revenues (expenses)	4,777,247	5,937,005	(1,159,758)	(20)%
Capital gifts and grants	—	14,165,660	(14,165,660)	(100)%
Changes in net position	(10,209,080)	2,701,384	(12,910,464)	(478)%
Net position at beginning of year	181,572,258	178,870,874	2,701,384	2 %
Net position at end of year	**$ 171,363,178**	**$ 181,572,258**	**$ (10,209,080)**	**(6)%**

Operating revenues in 2025 were 18% higher than the prior year. The increase in operating revenues was due to 12% growth in PCS revenues and a 106% increase in revenues recognized from the Catalyst program. PCS experienced strong growth in commercial sales activity during the year which led to a 21% increase in PCS commercial revenue as compared to 2024. This increase was offset by a $0.9 million decrease in government funded revenue. The revenue increase in Catalyst was driven by a ramp up in marketing activities which drove participation rates and also funding to support data infrastructure and analytics. Revenues from U.S. Government sources generated 36% of the total in 2025 and 34% in 2024.

Net IP income decreased from 2024 to 2025 by 59% due to expiration of patents resulting in a declining royalty stream.

Salaries, wages and employee benefits decreased by 9% from 2024 to 2025 driven by a workforce reduction in 2024 to align staffing levels with reduced operating activity. Average full-time equivalent (FTE) employees declined from 201 in 2024 to 182 in 2025.

There was a 23% increase in expenditures for supplies and services from 2025 to 2024 due to an increase in spending to support higher PCS contract revenues and growth of the Catalyst program.

Investment income comprises unrealized gains on investments in 2025 of $1.7 million versus unrealized gains on investments of $2.2 million in 2024. Dividend and interest income was $3.5 million in 2025 and $5.7 million in 2024. The decrease in investment income in 2025 reflects the liquidation of investment assets to support the Organization's capital projects and to fund operating losses.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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)%
Noncapital subsidies	160,933	158,198	2,735	2 %
Nonoperating revenues (expenses)	5,937,005	7,044,943	(1,107,938)	(16)%
Capital gifts and grants	14,165,660	7,100,000	7,065,660	100 %
Changes in net position	2,701,384	(2,352,401)	5,053,785	215 %
Net position at beginning of year	178,870,874	181,223,275	(2,352,401)	(1)%
Net position at end of year	**$ 181,572,258**	**$ 178,870,874**	**$ 2,701,384**	**2 %**

Operating revenues in 2024 were 18% lower than the prior year due mainly to a decline in both government funded and commercial PCS revenue. Revenues from sales to the U.S. Government generated 34% of the total in 2024 and 36% in 2023. Net intellectual property (IP) income increased from 2023 to 2024 by 49% due to licensing fees on a new product.

Salaries, wages and employee benefits decreased 12% from 2023 to 2024. A reduction in force implemented in the second quarter of 2024 resulted in the elimination of 20% of employee headcounts (full-time equivalents, FTE) from 231 at the end of 2023 to 184 at the end of 2024. 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 2023 to 2024 which comprises an 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 SBITA assets and liabilities.

The decrease in investment income in 2024 comprises unrealized gains on investments in 2024 of $2.2 million versus unrealized gains on investments of $3.9 million in 2023. Dividend and interest income was $5.7 million in 2024 and $6.7 million in 2023.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

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. As of January 2, 2026, capital expenditure commitments were approximately $1.8 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 2025 the Organization invested approximately $24.7 million in capital assets.

The long-term debt at January 2, 2026 and January 3, 2025, 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 $0.8 million and $0.9 million, respectively.

During 2025 and 2024, the Organization made long-term debt payments of $1.7 million and $1.5 million, respectively, with 2025 payments comprising $0.8 million related to the Recovery Zone Facility Bond and the balance related to SBITA obligations.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

In 2022, the Organization divested its engineering division in order to focus on biotechnology services and research and to play an important role in the development of Birmingham as a nationally recognized biotechnology hub. The proceeds from the divestiture together with State and Local funding have been used to invest in facilities and infrastructure aimed at three main areas: preclinical services, collecting genetic and health data for underserved populations in the state of Alabama, and development of an incubator program for early stage biotechnology companies.

Below are the key trends and factors that are likely to impact the Organization's financial position and operations in the next 12 months and beyond:

- Federal and commercial research funding for new drug development has been in decline over the past few years putting pressure on demand for preclinical services. Although most industry analysts expect this trend to reverse and for demand to grow at a annual rate of around 7% - 8%, the timing of this turnaround is uncertain. Competitive pressure is likely to persist in the near term increasing the challenge of growing revenues to a level needed to generate positive cash flows.
- Based on the challenges in the preclinical market place, the Organization is expected to continue to experience operating losses for at least the next two years. The Organization is compiling a strategic plan, which includes additional funding and managing its costs, to mitigate the impact of lower revenues.
- ARPA funding for the Organization's Catalyst program will expire in 2026. The program has made impressive strides over the past year in terms of participation and building the capabilities required to house and analyze participant data. However, the program has not yet reached the scale needed to generate the cashflows needed to achieve sustainability. Additional funding sources will need to be identified to maintain the current growth rates and develop a commercially viable revenue stream.

FINANCIAL STATEMENTS

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF NET POSITION – ENTERPRISE FUND
JANUARY 2, 2026 AND JANUARY 3, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2025	2024
CURRENT ASSETS		
Cash and cash equivalents	$ 12,833,525	$ 42,544,494
Investments, at fair value	27,108,707	49,059,003
Restricted cash and investments, at fair value	14,108,171	13,576,328
Accounts receivable, net	7,100,774	4,765,819
Other receivables	613,228	1,021,821
Materials and supplies, net	454,687	447,404
Prepayments and other current assets	1,014,281	1,419,471
Total current assets	63,233,373	112,834,340
NONCURRENT ASSETS		
Net OPEB asset	4,873,821	3,913,595
Investments, long-term	10,736,474	6,983,634
Capital assets:		
Land and improvements	5,548,157	3,612,802
Buildings and major plant equipment	140,349,080	45,493,354
Laboratory equipment and fixtures	42,850,025	37,793,181
Office furniture and equipment	3,360,428	2,227,366
Intangible assets, net	1,363,444	1,403,763
Right of use assets - SBITAs	2,540,307	2,517,989
	196,011,441	93,048,455
Less accumulated depreciation	66,711,157	61,933,576
	129,300,284	31,114,879
Construction-in-progress	4,835,296	83,491,464
Total capital assets, net	134,135,580	114,606,343
Total noncurrent assets	149,745,875	125,503,572
TOTAL ASSETS	212,979,248	238,337,912
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - OPEB	256,549	400,280
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 213,235,797**	**$ 238,738,192**

See notes to the financial statements

STATEMENTS OF NET POSITION – ENTERPRISE FUND

JANUARY 2, 2026 AND JANUARY 3, 2025

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2025	2024
CURRENT LIABILITIES		
Accounts payable	$ 2,052,976	$ 8,448,680
Accrued liabilities	6,971,525	6,719,455
Unearned revenue	22,865,459	30,953,678
Current maturities of long-term debt	1,449,253	1,114,027
Total current liabilities	33,339,213	47,235,840
NONCURRENT LIABILITIES		
Long-term debt	6,515,898	7,725,133
TOTAL LIABILITIES	39,855,111	54,960,973
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - OPEB	2,017,508	2,204,961
NET POSITION		
Net investment in capital assets	122,230,739	102,797,039
Restricted:		
Expendable	17,221,033	15,627,873
Unrestricted	31,911,406	63,147,346
Total net position	171,363,178	181,572,258
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 213,235,797**	**$ 238,738,192**

See notes to the financial statements

SOUTHERN RESEARCH INSTITUTE

(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – ENTERPRISE FUND

FOR THE YEARS ENDED JANUARY 2, 2026 AND JANUARY 3, 2025

	2025	2024
OPERATING REVENUES		
Contract revenues	37,115,270	30,426,698
Intellectual property revenues, net of direct expenses	561,523	1,379,518
Total operating revenues	37,676,793	31,806,216
OPERATING EXPENSES		
Salaries, wages and benefits	22,785,637	25,135,494
Supplies and services	24,789,679	20,228,859
Depreciation and amortization	5,810,025	4,004,077
Total operating expenses	53,385,341	49,368,430
OPERATING LOSS	(15,708,548)	(17,562,214)
NONCAPITAL SUBSIDIES		
Contributions	722,221	160,933
OPERATING INCOME (LOSS) AND NONCAPITAL SUBSIDIES	(14,986,327)	(17,401,281)
NONOPERATING REVENUES AND EXPENSES		
Investment income (loss)	5,156,743	7,826,674
Interest expense	(279,036)	(359,033)
Gain (loss) on disposal of assets	(100,460)	(1,530,636)
Capital gifts and grants	—	14,165,660
NET NONOPERATING REVENUES	4,777,247	20,102,665
CHANGE IN NET POSITION	(10,209,080)	2,701,384
NET POSITION AT BEGINNING OF YEAR	181,572,258	178,870,874
NET POSITION AT END OF YEAR	171,363,178	181,572,258

See notes to the financial statements

SOUTHERN RESEARCH INSTITUTE

(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)

STATEMENTS OF CASH FLOWS – ENTERPRISE FUND

FOR THE YEARS ENDED JANUARY 2, 2026 AND JANUARY 3, 2025

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	$ 25,657,685	$ 37,191,715
Intellectual property revenues	1,207,425	1,622,684
Payments to employees and related benefits	(24,428,940)	(26,020,434)
Payments to suppliers	(29,334,149)	(18,714,623)
Net cash used by operating activities	(26,897,979)	(5,920,658)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions	722,221	193,018
Net change in note payable	—	(819,625)
Net cash provided (used) by noncapital financing activities	722,221	(626,607)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(24,686,626)	(68,971,158)
Proceeds from sale of assets held for sale	5,000	1,824,000
Principal payments on SBITAs and long-term debt	(1,689,933)	(1,542,783)
Interest payments on long-term debt	(279,036)	(359,033)
Capital gifts and grants	—	8,500,000
Net cash used by capital and related financing activities	(26,650,595)	(60,548,974)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	119,024,102	186,903,138
Purchases of investments	(99,279,376)	(131,520,676)
Interest on cash	2,826	886
Interest and dividend income on investments	3,367,832	5,675,379
Net cash provided by investing activities	23,115,384	61,058,727
NET CHANGE IN CASH AND CASH EQUIVALENTS	(29,710,969)	(6,037,512)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,544,494	48,582,006
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 12,833,525**	**$ 42,544,494**

See notes to the financial statements

SOUTHERN RESEARCH INSTITUTE
(A COMPONENT UNIT OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA)
STATEMENTS OF CASH FLOWS – ENTERPRISE FUND
FOR THE YEARS ENDED JANUARY 2, 2026 AND JANUARY 3, 2025

	2025	2024
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (15,708,548)	$ (17,562,214)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation and amortization	5,810,025	4,004,077
Noncash adjustment of postretirement benefits	(1,003,948)	(506,569)
Change in accounts receivable, net	(2,334,955)	2,838,780
Change in other receivables	(95,321)	(917,886)
Change in materials and supplies, net	(7,283)	(319,301)
Change in prepayments and other current assets	671,615	1,914,985
Change in accounts payable	(6,395,704)	(1,590,619)
Change in accrued liabilities	252,070	2,441,552
Change in unearned revenue	(8,085,930)	3,776,537
Net cash used by operating activities	**$ (26,897,979)**	**$ (5,920,658)**
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in fair value of investments	$ 1,706,742	$ 2,150,409
Capital assets acquired through SBITAs	$ 815,924	$ 495,576

See notes to the financial statements

SOUTHERN RESEARCH INSTITUTE – VEBA TRUST FUND
STATEMENTS OF FIDUCIARY NET POSITION – OPEB TRUST FUND
JANUARY 2, 2026 AND JANUARY 3, 2025

	2025	2024
ASSETS		
Cash and cash equivalents	$ 66,497	$ 10,851
Investments, at fair value	5,117,318	4,566,809
TOTAL ASSETS	**$ 5,183,815**	**$ 4,577,660**
LIABILITIES AND NET POSITION		
NET POSITION RESTRICTED FOR OPEB	**$ 5,183,815**	**$ 4,577,660**

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 2, 2026 AND JANUARY 3, 2025

	2025	2024
ADDITIONS		
Increase in fair value of investments	$ 432,791	$ 235,078
Dividends and interest	183,526	140,383
Total additions	616,317	375,461
DEDUCTIONS		
Administrative expenses	10,162	—
Total deductions	10,162	—
NET CHANGE	606,155	375,461
NET POSITION RESTRICTED FOR OPEB AT BEGINNING OF YEAR	4,577,660	4,202,199
NET POSITION RESTRICTED FOR OPEB AT END OF YEAR	**$ 5,183,815**	**$ 4,577,660**

See notes to the financial statements

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.

- 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 January 4, 2025 through January 2, 2026 (2025), and December 30, 2023 through January 3, 2025 (2024).

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 2025 and 2024.

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 2025 and 2024, the Organization did not receive refunds of taxes paid, nor pay/accrue any taxes owed.

Restricted – Expendable Net Position

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

The Organization has received donations with stipulations on how the funds should be used. 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 2, 2026 and January 3, 2025, of $14.1 million and $13.6 million, respectively. The Organization has restricted expendable net position related to deferred outflows – OPEB of $0.3 million and $0.4 million at January 2, 2026 and January 3, 2025, respectively. The Organization has restricted expendable net position related to deferred inflows – OPEB of $2.0 million and $2.2 million at January 2, 2026 and January 3, 2025, respectively. In addition, the Organization's net OPEB asset at January 2, 2026 and January 3, 2025, of $4.9 million and $3.9 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.

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 36% of the Organization's contract revenues in 2025 and 34% in 2024.

Capital Gifts and Grants

The Organization did not recognize any revenue stemming from capital gifts or grants in 2025. 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.

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 $17.3 million and $16.2 million at January 2, 2026 and January 3, 2025, respectively. The Organization received approximately $136,000 and $146,000 from the Trust for the years ended January 2, 2026 and January 3, 2025, 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.
- 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.

New Accounting Standards

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 early adopted GASB Statement No. 102 for fiscal year 2025. The adoption of GASB Statement No. 102 did not have a material impact on the Organization's financial statements.

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 objective 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 early adopted GASB Statement No. 103 for fiscal year 2025. The adoption of GASB Statement No. 103 did not have a material impact on the Organization's financial statements.

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 No. 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 early adopted GASB Statement No. 104 for fiscal year 2025. The adoption of GASB Statement No. 104 did not have a material impact on the Organization's financial statements.

In March 2025, the GASB issued GASB statement No. 105, *Subsequent Events.* The objective of this Statement is to improve the usefulness and consistency of financial reporting related to subsequent events. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. The Organization is evaluating whether there will be any material impact from its adoption of GASB No. 105.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. The reclassifications had no effect on net assets or the changes in net assets previously reported.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through May 5, 2026, which is the date the financial statements were issued.

3. CASH AND CASH EQUIVALENTS

The carrying amount of cash balances at January 2, 2026, totaled $2.8 million ($4.1 million for 2024), and the bank balance was $2.8 million ($4.1 million for 2024). The bank balances were insured up to $500,000 at January 2, 2026 and January 3, 2025. Cash equivalents at January 2, 2026 totaled $10.0 million ($38.5 million at January 3, 2025), 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 2, 2026, the Organization had unrestricted investments in equity mutual funds totaling $2,650,104 and the following unrestricted cash and fixed-income investments with the maturities indicated:

	Investment Maturities of Underlying Securities (in Years)				
Investment Type	**Market Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Mutual funds – bonds	35,195,077	24,458,603	5,382,816	3,187,477	2,166,181
	$ 35,195,077	**$ 24,458,603**	**$ 5,382,816**	**$ 3,187,477**	**$ 2,166,181**

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

As of January 3, 2025, the Organization had unrestricted investments in equity mutual funds of $4,690,069 and the following unrestricted cash and fixed-income investments with the maturities indicated:

	Investment Maturities of Underlying Securities (in Years)				
Investment Type	**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
	$ 51,352,568	**$ 44,368,934**	**$ 2,768,648**	**$ 2,266,476**	**$ 1,948,510**

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

Restricted Cash and Investments (Endowment)

As of January 2, 2026, the Organization had restricted investments in equity mutual funds totaling $8,681,220 and the following restricted cash and fixed-income investments with the maturities indicated:

	Investment Maturities of Underlying Securities (in Years)				
Investment Type	**Market Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Treasury securities	$ 113,336	$ 113,336	$ —	$ —	$ —
Mutual funds – bonds	5,313,615	991,467	1,542,275	1,673,824	1,106,049
	$ 5,426,951	**$ 1,104,803**	**$ 1,542,275**	**$ 1,673,824**	**$ 1,106,049**

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

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 Maturities of Underlying Securities (in Years)				
Investment Type	**Market Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Treasury securities	$ 14,295	$ 14,295	$ —	$ —	$ —
Mutual funds – bonds	5,385,759	1,255,698	1,575,525	1,372,830	1,181,706
	$ 5,400,054	**$ 1,269,993**	**$ 1,575,525**	**$ 1,372,830**	**$ 1,181,706**

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 2, 2026 and January 3, 2025, 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 2, 2026, the Organization had uncollateralized restricted cash and investments with Fidelity Investments (Fidelity) of $14,108,171 (Endowment) and unrestricted cash and investments with Fidelity of $47,900,071. 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.

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 2, 2026:

		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	$ 5,860,644	$ 5,860,644	$ —	$ —
International	3,830,380	3,830,380	—	—
Real estate	525,448	525,448	—	—
Liquid alternatives	371,767	371,767	—	—
Utilities	743,085	743,085	—	—
Fixed Income:				
Bond mutual funds:				
Short-term	17,404,497	17,404,497	—	—
International	23,104,195	23,104,239	—	—
Total investments	**$ 51,840,016**	**$ 51,840,060**	**$ —**	**$ —**

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	$ 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	—	—
Total investments	**$ 69,604,665**	**$ 69,604,665**	**$ —**	**$ —**

5. ACCOUNTS RECEIVABLE

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

	2025	2024
Billed	$ 5,406,332	$ 3,007,172
Unbilled	3,038,862	2,365,149
	8,445,194	5,372,321
Less allowances	(1,344,420)	(606,502)
	$ 7,100,774	**$ 4,765,819**

6. NOTES RECEIVABLE

On December 1, 2023, the Organization entered into a $0.7 million 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 was due to the Organization no later than May 1, 2025. At May 1, 2025, the customer was unable to pay, and the note was amended and restated to incorporate all the outstanding accrued interest as well as any additional outstanding invoices into the principal. The amended note included a $150,000 payment due on August 31, 2025 with the balance and accrued interest due in December. The customer was unable to make either of the payment due dates. Management is in discussions with the customer to amend the note to extend the due date. The note is fully reserved at January 2, 2026.

7. OTHER RECEIVABLES

At January 2, 2026 and January 3, 2025, other receivables consisted primarily of amounts due from non-capital subsidies and non-operating receivables. Non capital subsidies, or resources received with no goods or services in return and used to keep charges lower, are recorded when a donor makes a donation pledge.

8. CAPITAL ASSETS

Capital assets activity for the year ended January 2, 2026, is summarized below:

	Balance at January 03, 2025	Additions	Transfers	Retirements/ Reimbursements	Balance at January 02, 2026
Land	$ 2,918,352	$ —	$ —	$ —	$ 2,918,352
Construction-in-progress	83,491,464	21,927,575	(100,583,743)	—	4,835,296
	86,409,816	21,927,575	(100,583,743)	—	7,753,648
Capital assets being depreciated:					
Land improvements	694,450	—	1,935,355	—	2,629,805
Buildings and major plant equipment	45,493,354	297,788	94,656,988	(99,050)	140,349,080
Laboratory equipment and fixtures	37,793,181	2,326,215	2,877,737	(147,108)	42,850,025
Office furniture and equipment	2,227,366	19,399	1,113,663	—	3,360,428
Right of use assets - SBITAs	2,517,989	794,315	—	(771,997)	2,540,307
	88,726,340	3,437,717	100,583,743	(1,018,155)	191,729,645
	175,136,156	25,365,292	—	(1,018,155)	199,483,293
Less accumulated depreciation	(61,933,576)	(5,691,267)	—	913,686	(66,711,157)
	113,202,580	19,674,025	—	(104,469)	132,772,136
Intangibles	1,983,007	115,649	—	(137,844)	1,960,812
Less accumulated amortization	(579,244)	(118,758)	—	100,634	(597,368)
	1,403,763	(3,109)	—	(37,210)	1,363,444
	$114,606,343	**$ 19,670,916**	**$ —**	**$ (141,679)**	**$134,135,580**

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)	(3,836,315)	—	1,148,178	(61,933,576)
	50,118,935	65,358,521	—	(2,274,876)	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
	$ 52,024,132	**$ 65,462,658**	**$ —**	**$ (2,880,447)**	**$114,606,343**

Depreciation expense for the years ended January 2, 2026 and January 3, 2025, was $4,916,039 and $3,158,042, respectively.

Amortization expense for the years ended January 2, 2026 and January 3, 2025, was $893,986 and $846,035, respectively.

9. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows at year-end:

	2025	2024
Payroll related payables	$ 2,053,311	$ 1,970,695
Intellectual property awards accrual	23,176	152,376
Healthcare obligations	21,600	128,550
Other accrued expenses - construction	3,939,690	2,970,144
Other accrued expenses	933,748	1,497,690
	$ 6,971,525	**$ 6,719,455**

10. UNEARNED REVENUES

The composition of unearned revenues as of January 2, 2026 and January 3, 2025, was as follows:

	2025	2024
State of Alabama - ARPA funds	$ 9,075,916	$ 15,402,246
City of Birmingham - ARPA funds	2,842,536	4,535,785
Alabama Innovation funds	105,914	3,703,978
Education Trust funds	850,000	—
Charges for services paid in advance	9,991,093	7,311,669
	$ 22,865,459	**$ 30,953,678**

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.

During 2024, the Organization secured $5.0 million of Catalyst funds from the City of Birmingham. 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 2025, the Organization did not receive any Innovate Alabama contributions. In 2024, the Organization received $2.9 million in Innovate Alabama contributions. Revenues on these contributions are recognized as costs are incurred.

During 2025, the Organization received $0.9 million from the supplemental appropriations of the Alabama Education Trust Fund. Revenues on these contributions are recognized as costs are incurred. As of the end of the year, no revenue has been recognized.

11. LONG-TERM DEBT

Conduit Debt

On August 30, 2010, The Cooperative District of the City of Birmingham – Southern Research Institute issued, for the benefit of the Organization as the guarantor, $20.0 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 2025 and 2024. 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 2, 2026, is summarized as follows:

	Balance at January 03, 2025	Additions	Payments/ Reductions	Balance at January 02, 2026	Due Within One Year
Recovery Zone Facility Bonds held by Regions Capital Advantage, fixed interest rate (3.05%) for five-year term starting September 22, 2027	7,948,514	—	(840,000)	7,108,514	840,000
SBITA Obligations, 1.57% to 4.59% due annually through 2028	890,646	815,924	(849,933)	856,637	609,253
	$ 8,839,160	**$ 815,924**	**$ (1,689,933)**	**$ 7,965,151**	**$ 1,449,253**

Long-term debt 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
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
	$ 9,886,366	**$ 495,576**	**$ (1,542,782)**	**$ 8,839,160**	**$ 1,114,027**

Maturities of long-term debt after 2025 are as follows:

Business-Type Activities Recovery Zone Facility Bonds

Maturing	Rate	Principal	Interest
2026	3.05%	$ 840,000	$ 209,447
2027	3.05%	6,268,514	140,154
		$ 7,108,514	**$ 349,601**

SBITA Obligations

Maturing	Principal	Interest	Total
2026	$ 609,253	$ 14,329	$ 623,582
2027	247,384	3,781	251,165
	$ 856,637	**$ 18,110**	**$ 874,747**

The Organization incurred interest expense of $0.3 million and $0.4 million during 2025 and 2024, respectively.

12. 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 Regions Bank. The loan is secured by the Organization’s trade accounts receivable. As of January 3, 2025, there was no outstanding balance of the note payable. The Organization renewed the agreement on December 11, 2025, with a maturity of December 31, 2026. As of January 2, 2026, there was no outstanding balance on the note payable.

Note payable activity for the year ended January 2, 2026, is summarized as follows:

	Balance at January 03, 2025	Additions	Payments/ Reductions	Balance at January 02, 2026	Due Within One Year
Note payable	$ —	$ 515,929	$ (515,929)	$ —	$ —
	$ —	**$ 515,929**	**$ (515,929)**	**$ —**	**$ —**

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)	$ —	$ —
	$ 819,625	**$ 1,863,111**	**$ (2,682,736)**	**$ —**	**$ —**

13. OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)

General Information about the OPEB Plan

Plan description - The Organization sponsors a single-employer postretirement welfare benefit plan, entitled Southern Research Institute Health and Welfare Benefit Program (the Plan). In January 2003, the Organization established a trust fund (the Trust) to accumulate funds to pay the costs of benefits for participants covered by the Plan. The Trust and the Plan collectively constitute a "voluntary employee's beneficiary association" (VEBA) to fund benefits to eligible retirees and 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.

In August 2025, the Organization's Board of Directors (the Board) approved a resolution to discontinue retiree medical benefits under the Plan for any employee or dependents that would become eligible after December 31, 2025. This change did not impact employees and dependents currently receiving benefits under the Plan or those that would become eligible before January 1, 2026. The Policy change was implemented effective December 31, 2025. Furthermore, in December 2025, the Board approved a resolution to amend the Trust document to expand the use of funds to include the medical and dental premiums for all of the Organization's employees and dependents in addition to the eligible retirees.

Employees covered by benefit terms - Participants are eligible to receive benefits under the Plan, as amended, upon meeting the age and service requirements indicated below:

Date of Hire	Minimum Age and Service
After January 1, 2026	Not eligible
January 1, 2014 - December 31, 2025	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, 2025, 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. The VEBA was amended in December 2025 to provide for health and welfare benefits for all employees, in addition to postretirement benefits. Assets have been segregated and restricted to provide for 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, 2025, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of January 1, 2025.

Actuarial assumptions - The total OPEB liability in the January 1, 2025 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 7.25% graded by 0.25% per year to 7%, 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

Changes in the Net OPEB Liability (Asset)

	Total OPEB Liability (A)	Fiduciary Net Position (B)	Net OPEB Liability (Asset) (A)-(B)
Balance at January 3, 2025	$ 664,065	$ 4,577,660	$ (3,913,595)
Service cost	55,637	—	55,637
Interest cost	44,574	—	44,574
Changes from plan amendment	(410,879)		(410,879)
Differences between expected and actual experience	(34,493)	—	(34,493)
Change of assumptions	36,242	—	36,242
Net investment gain	—	616,317	(616,317)
Benefit payments	(45,152)	(10,162)	(34,990)
Net change	(354,071)	606,155	(960,226)
Balance at January 2, 2026	**$ 309,994**	**$ 5,183,815**	**$ (4,873,821)**

	Total OPEB Liability (A)	Fiduciary Net Position (B)	Net OPEB Liability (Asset) (A)-(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)
Net change	(862,628)	375,461	(1,238,089)
Balance at January 3, 2025	**$ 664,065**	**$ 4,577,660**	**$ (3,913,595)**

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 1.0% lower or 1.0% higher than the current rate:

	1% Decrease (5.5)%	Current Discount Rate (6.5)%	1% Increase (7.5)%
Total OPEB Liability	$ 314,848	$ 309,994	$ 304,959

	1% Decrease (5.5)%	Current Healthcare Rate (6.5)%	1% Increase (7.5)%
Total OPEB Liability	$ 303,793	$ 309,994	$ 316,420

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

For the years ended January 2, 2026 and January 3, 2025, the Plan recognized OPEB income of $0.6 million and $0.4 million, 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 2, 2026, the Plan reported deferred outflows of resources and deferred inflows of resources related to the OPEB Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 103,359	$ (1,497,749)
Differences between expected and actual investment earnings	26,581	(131,436)
Changes of assumptions or other inputs	126,609	(388,323)
Total	**$ 256,549**	**$ (2,017,508)**

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:

2026	$ (324,261)
2027	(441,921)
2028	(398,229)
2029	(340,251)
2030	(228,307)
Thereafter	(27,990)
	$ (1,760,959)

Investments

As of January 2, 2026, the Trust had investments in equity mutual funds totaling $2,905,256 and the following restricted cash and fixed-income investments with the maturities indicated:

		Investment Maturities of Underlying Securities (in Years)			
Investment Type	**Market Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money market funds	$ 66,497	$ 66,497	$ —	$ —	$ —
Mutual funds – bonds	2,212,256	453,808	765,554	591,200	401,694
	$ 2,278,753	**$ 520,305**	**$ 765,554**	**$ 591,200**	**$ 401,694**

As of January 3, 2025, the Trust had investments in equity mutual funds totaling $2,492,709 million and the following restricted cash and fixed-income investments with the maturities indicated:

	Investment Maturities of Underlying Securities (in Years)				
Investment Type	**Market Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More Than 10**
Money market funds	$ 10,851	$ 10,851	$ —	$ —	$ —
Mutual funds – bonds	2,074,100	699,256	509,955	465,692	399,197
	$ 2,084,951	**$ 710,107**	**$ 509,955**	**$ 465,692**	**$ 399,197**

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

Interest Rate Risk - The Trust assets 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 has historically been: 32.0% in domestic stocks, 16.0% in international stocks, 3.0% in real estate, 3% in alternatives, 10% in intermediate domestic debt securities, 10.0% in global debt securities, 10.0% in international debt securities, 10% in treasury inflation protected securities (TIPS) and 6.0% in short-term debt securities. In January 2026, the asset allocation transitioned to a heavier mix of money market and short-term funds to mirror expected cash needs resulting from the expansion of the VEBA trust to provide funding for all of the Organization's employee's health and dental benefits.

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 2, 2026 and January 3, 2025. 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 2, 2026, the Plan had uncollateralized cash and investments with Fidelity Investments of $5.2 million ($4.6 million at January 3, 2025).

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.

The following fair value hierarchy table presents information about the Organization's investments measured at fair value as of January 2, 2026:

	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	$ 1,553,790	$ 1,553,790	$ —	$ —
International	932,819	932,819	—	—
Real estate	120,905	120,905	—	—
Liquid alternatives	92,416	92,416	—	—
Utilities	205,132	205,132	—	—
Fixed Income:				
Bond mutual funds:				
Short-term	1,094,589	1,094,589	—	—
International	1,117,667	1,117,667	—	—
Total investments	**$ 5,117,318**	**$ 5,117,318**	**$ —**	**$ —**

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	—	—
Total investments	**$ 4,566,809**	**$ 4,566,809**	**$ —**	**$ —**

14. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended January 2, 2026, are as follows:

	Salaries, Wages, and Benefits	Supplies and Services	Depreciation and Amortization	Total
Research	$ 16,238,740	$ 15,902,853	$ 1,693,725	$ 33,835,318
Institutional Support	4,378,884	4,849,755	260,950	9,489,589
Operation & Maintenance of Plant	2,168,013	4,037,071	3,855,350	10,060,434
Total	**$ 22,785,637**	**$ 24,789,679**	**$ 5,810,025**	**$ 53,385,341**

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

	Salaries, Wages, and Benefits	Supplies and Services	Depreciation and Amortization	Total
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	**$ 25,135,494**	**$ 20,228,859**	**$ 4,004,077**	**$ 49,368,430**

Amounts are allocated based on management's best estimate.

15. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution retirement plan available to all employees after they have attained certain age and service requirements. The provisions of the plan are established by and may be amended by the Organization. Employees may contribute a percentage of their pretax salary, not to exceed the maximum allowed under the Internal Revenue Code. Contributions by employees are matched in accordance with the plan agreements and totaled $1.2 million and $1.2 million for the years ended January 2, 2026 and January 3, 2025, respectively. Total employer contributions, including matching and discretionary contributions, for the years ended January 2, 2026 and January 3, 2025, amounted to $0.7 million and $0.7 million, 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 $0.6 million and $0.1 million of the Plan's forfeitures to fund employer contributions for the years ended January 2, 2026 and January 3, 2025, respectively.

16. RELATED PARTY TRANSACTIONS

As discussed in Note 1, the Organization is a component unit of the Board of Trustees of the University of Alabama operating for the benefit of the University of Alabama at Birmingham (UAB). Numerous business arrangements exist between the Organization and UAB, including renting space, providing contract or grant support, providing administrative support and conducting joint research projects. Contract revenue received from UAB totaled $1.7 million during 2025 and $2.7 million during 2024. Expenses paid to UAB totaled $2.3 million during 2025 and $2.7 million during 2024. Accounts receivable from UAB were $0.2 million at January 2, 2026, and $0.3 million at January 3, 2025. Accounts payable to UAB were $0.1 million at January 2, 2026 and $0.3 million at January 3, 2025.

17. COMMITMENTS AND CONTINGENCIES

At January 2, 2026, commitments for capital expenditures totaled approximately $1.8 million.

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

18. LITIGATION

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

19. AMERICAN RESCUE PLAN ACT (ARPA)

On June 8, 2023, the Organization entered into a memorandum of understanding with the State of Alabama for the award to the Organization of $20.0 million of Coronavirus State Fiscal Recovery Funds. The Recovery Funds were provided to the State by the United States Government under the 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 $5.0 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 ARPA.

Through the fiscal year ended January 2, 2026, the Organization had expended $13.1 million of the ARPA funds.

20. CASH AVAILABLE FOR GENERAL EXPENDITURES

The following table reflects the Organization's cash, cash equivalents, investments and restricted cash and investments as of January 2, 2026 and January 3, 2025, reduced by amounts not available for general expenditures due to donor-imposed restrictions or board designations.

	2025	2024
Cash and cash equivalents	$ 12,833,525	$ 42,544,494
Investments	37,845,181	56,042,637
Restricted cash and investments	14,108,171	13,576,328
	64,786,877	112,163,459
Less: Cash, cash equivalents and investments unavailable for general expenditures within one year:		
Donor purpose restrictions	12,930,452	23,642,009
Board designated restrictions for capital projects	17,312,379	57,918,942
Segregated donor purpose restricted cash and investments	14,108,171	13,576,328
Cash, cash equivalents and investments available to meet cash needs for general expenditures	**$ 20,435,875**	**$ 17,026,180**

For fiscal year ended 2024, 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)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
TOTAL OPEB LIABILITY										
Service cost	$ 55,637	$ 60,258	$ 70,006	$ 119,760	$ 97,986	$ 115,865	$ 108,284	$ 123,141	$ 144,932	$ 137,234
Interest	44,574	47,018	87,782	126,879	131,985	135,840	153,177	175,563	207,648	207,519
Change of benefit terms	(410,879)	—	—	(827,797)	—	—	—	—	—	—
Differences between expected and actual experience	(34,493)	(732,652)	156,582	(321,359)	(289,078)	(463,443)	(351,911)	(757,837)	(180,239)	(151,861)
Change in assumptions	36,242	(180,043)	—	—	(1,388)	(2,600)	9,334	—	61,689	16,769
Benefit payments	(45,152)	(57,209)	—	—	—	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)
Net change in total OPEB liability	(354,071)	(862,628)	314,370	(902,517)	(60,495)	(241,023)	(360,572)	(496,757)	24,194	140,728
Total OPEB liability – beginning	664,065	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
Total OPEB liability – ending (A)	**$ 309,994**	**$ 664,065**	**$1,526,693**	**$1,212,323**	**$2,114,840**	**$2,175,335**	**$2,416,358**	**$2,776,930**	**$3,273,687**	**$3,249,493**
OPEB FIDUCIARY NET POSITION										
Contributions	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Net investment income	616,317	375,461	411,452	(364,848)	437,851	172,707	493,564	(186,063)	393,811	266,803
Benefit payments	—	—	—	—	—	(26,685)	(279,456)	(37,624)	(209,836)	(68,933)
Administrative expense	(10,162)	—	(5,624)	(7,187)	(10,063)	(9,196)	(10,840)	(9,707)	(8,505)	(6,363)
Other – transfer	—	—	—	—	—	—	—	—	—	—
Net change in plan fiduciary net position	606,155	375,461	405,828	(372,035)	427,788	136,826	203,268	(233,394)	175,470	191,507
Plan fiduciary net position – beginning	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
Plan fiduciary net position – ending (B)	5,183,815	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
NET OPEB LIABILITY (ASSET) (A) – (B)	$(4,873,821)	$(3,913,595)	$(2,675,506)	$(2,584,048)	$(2,053,566)	$(1,565,283)	$(1,187,434)	$(623,594)	$(360,231)	$(208,955)
COVERED EMPLOYEE PAYROLL	$18,879,143	$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
NET OPEB LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL	(25.82)%	(20.73)%	(15.34)%	(8.88)%	(7.69)%	(5.26)%	(4.19)%	(1.80)%	(1.01)%	(0.63)%
NET POSITION AS A PERCENTAGE OF THE TOTAL OPEB LIABILITY	1672.23 %	689.34 %	275.25 %	313.15 %	197.10 %	171.96 %	149.14 %	122.46 %	111.00 %	106.43 %

See independent auditors' report.

NOTES TO THE SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET)

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

Actuarial 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 7.25% graded by 0.25% per year to 7%, 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 2, 2026

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Pass-Through Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Department of Treasury				
Covid-19 Coronavirus State and Local Fiscal Recovery Funds				
Pass-Through				
State of Alabama Department of Finance	21.027	SLT-5312	$ 6,326,329	$ -
City of Birmingham	21.027	SLFRF 00016	1,693,249	-
Total Department of Treasury			**8,019,578**	**-**
Research and Development Cluster:				
Department of Commerce				
Direct				
Department of Commerce	11.020		220,701	-
Total Department of Commerce			**220,701**	**-**
Department of Defense				
Direct				
Department of Defense	12.420		89,024	-
Pass-Through				
The University of North Carolina at Chapel Hill	12	5130557	10,025	-
Vaxsyna, Inc.	12	HT94252310708	200,123	-
Total Department of Defense			**299,172**	**-**
Department of Energy				
Pass-Through				
Southern Company Services, Inc.	81	SCS31511-0015	430,633	-
Total Department of Energy			**430,633**	**-**
U.S. Environmental Protection Agency				
Direct				
U.S. Environmental Protection Agency	66.034		1,126	-
Total U.S. Environmental Protection Agency			**1,126**	**-**
Department of Health and Human Services				
Direct				
National Center for Advancing Translational Sciences	93		9,600	-
National Center for Advancing Translational Sciences	93		9,690	-
National Center for Advancing Translational Sciences	93		4,710	-
National Center for Advancing Translational Sciences	93		6,000	-
National Institute of Allergy and Infectious Diseases	93		23,032	-
National Institute of Allergy and Infectious Diseases	93		1,340	-
National Institute of Allergy and Infectious Diseases	93		210,995	-
National Institute of Allergy and Infectious Diseases	93		188,321	-
National Institute of Allergy and Infectious Diseases	93		(3,014)	-
National Institute of Arthritis and Musculoskeletal and Skin Diseases	93.846		255,649	-
National Institute on Drug Abuse	93.279		142,534	60,600
National Institute of General Medical Sciences	93.351		519,268	-

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 2, 2026

Federal Grantor/Pass-Through Grantor	Federal Assistance Listing	Pass-Through Identifying Number	Federal Expenditures	Passed Through to Subrecipients
Pass-Through:				
Biofactura, Inc.	93	P22.0307	$ 925,968	$ -
BioKier, Inc.	93	1 R43 HL174321-01A1	9,986	-
Cambium Oncology, LLC	93	P24.4970	970	-
Geovax, Inc.	93	P24.5009 R4	259,688	-
Geovax, Inc.	93	P24.4992	47,751	-
Melinta Therapeutics, LLC	93	75A50123C00022	387,443	-
Oregon Health & Science University	93	2414285	28,150	-
SIGA Technologies, Inc.	93	P21.0351R1	12,920	-
Stanford University	93.853	SPO 153519	1,253,015	-
University of Alabama at Birmingham	93.866	000518124-SC001-Sut	51	-
University of Alabama at Birmingham	93.855	000520254-SC009	(11,258)	-
University of Alabama at Birmingham	93.853	000519288-SC001	2,900	-
University of Alabama at Birmingham	93.395	000543589-SC001	6,555	-
University of Alabama at Birmingham	93.350	000539056-SC001	50,966	-
University of Tennessee Health Science Center	93.395	23-0350	120,810	-
Total Department of Health & Human Services			**4,464,040**	**60,600**
Total Research and Development Cluster			5,415,672	60,600
Grand Total			$ 13,435,250	$ 60,600

See notes to schedule of expenditures of federal awards.

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 2, 2026. 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. Pass-through identifying numbers are provided on the Schedule where they are available and prime award numbers are provided where pass-through identifying numbers were not available.

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 the de minimis rate for all federal awards.

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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 2, 2026, 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 5, 2026.

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 5, 2026

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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 2, 2026. 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 2, 2026.

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 Auditors' 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 Auditors' 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 5, 2026

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 2, 2026

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on the financial statements:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	Yes ____	No **X**
Significant deficiencies identified?	Yes ____	None reported
Noncompliance material to financial statements noted?	Yes ____	No **X**

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	Yes ____	No **X**
Significant deficiencies identified?	Yes ____	None reported
Type of auditors' report on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	Yes ____	No **X**

Identification of major programs:

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

Dollar threshold used to determine Type A programs:	$1,000,000	
Auditee qualified as low-risk auditee?	Yes ____	No **X**

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.