



Semiconductor
Research
Corporation

2022

SEMICONDUCTOR RESEARCH CORPORATION ANNUAL REPORT

Driving Collaborative Innovation

www.src.org





Celebrating 40 Years of Semiconductor Innovation, Workforce Development, and Thought Leadership

SRC achieved a historic milestone in 2022 with 40 years of service to the semiconductor industry. Throughout that time, it has been a neutral, trusted, and science-driven organization, providing over \$1.7 billion in direct funding to academic institutions for industry-relevant research and the education of degreed professionals to fuel the future of our member companies. In addition, as shown in Figure 1, SRC has observed that where federal and/or state governments add funding and direction, it amplifies and catalyzes the R&D spend of the private sector, creating smart investments that educate the workforce and drive critical and emerging technologies for both national and economic security.

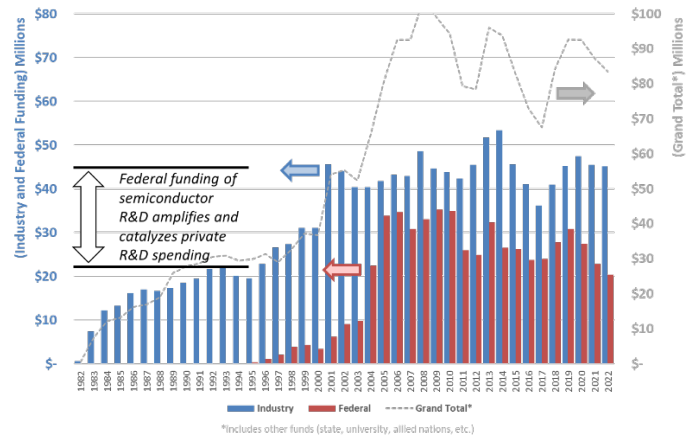
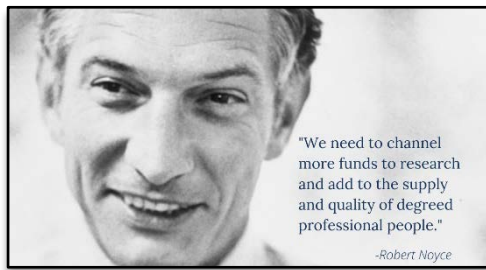


Figure 1. While SRC was forged by industry and remains industry-led, federal funding of semiconductor R&D does amplify and catalyze private R&D spending, as clearly illustrated by SRC's funding history.

In 2022, noteworthy accomplishments arising from our current programs included:

- With the pandemic retreating, we resumed face-to-face events with engaging content for local and remote participants. Most notably, this included our flagship event, TECHCON in Austin, TX, where we celebrated SRC's 40th anniversary with a stronger commitment to both industrial hiring and Diversity, Equity, and Inclusion (DEI) with 70% of the presenters within a year of graduation, seeking internships or full-time positions with member companies, and 53% women and URM Scholars. This annual celebration of SRC Scholars, their semiconductor education, and their hiring was absolutely electric!
- 209 Scholars were hired into SRC member companies, up YoY by ~9%. We also observed YoY increases in internships (Intel, Micron, and Samsung) and full-time hires (IBM, Qualcomm, and Micron).
- We recognized 197 instances of meaningful technology transfer between member companies and university researchers, up significantly (+44%) from 137 in 2021, likely due to improved reporting.
- SRC's proposal evaluation criteria formally incorporated SRC's 3 Pillars, including the Broadening Participation Pledge and SRC's Commitment to Sustainability, into all awards starting 1-Jan-2023 or later. SRC also raised the GRC funding guidance from \$90k/yr. to \$105k/yr. (+17%) for that timeframe.
- We created two new annual awards to celebrate results and improve alignment to our 3 Pillars. These included the SRC Innovation Award, which recognizes patents and IP arising from SRC research that have made a significant impact on the industry, and the Sustainable Future Award, which recognizes and celebrates noteworthy research aligned to SRC's Commitment to Sustainability.
- We realized significant progress against our multi-year IT modernization plan, building upon our success from prior years (OpenWater/Solicitations and Okta/SSO-Security) by transitioning in Dec-2022 to Pillar Science's Research Management software. The Pillar Science platform allows us to

organize and empower smart, multi-media collaboration with a growing research and workforce portfolio. While the roll-out and early adoption have been extraordinarily successful, we will need to invest added time and resources to fully understand and unleash the power of this new tool.

- SRC received the NIST Microelectronics and Advanced Packaging Technologies (MAPT) Roadmap award. The award builds upon the 2030 Decadal Plan for Semiconductors and validates SRC’s ability to apply its deep technical knowledge and impressive collaboration skills to convey industrial thought leadership to a broader audience in a timely fashion. SRC aims to create a high impact, web-centric product with a public preview and comment period in March-2023 and the final document published in October-2023.

Throughout 2022, two common themes emerged from our meetings with the SRC Board of Directors and our Scientific Advisory Boards. The first was their emphasis on the critical importance of holding Microelectronics and Advanced Packaging technologies (MAPT) together as they see the true opportunity residing at the intersection of these two traditionally siloed technology sectors. Second, they emphasized that DEI is a critical business need for their companies and that workforce development is a growing global issue of pressing concern. In fact, the lack of engineers and scientists to hire, across industry, has created a gap that is growing to 90k or more new workers in the second half of this decade and is quickly becoming the important calculation behind where new manufacturing facilities should be located.

Evidence that SRC can help scale to provide solutions to address these technology and personnel gaps is visible in SRC’s new JUMP 2.0 program with DARPA. In 2022, SRC solicited, reviewed, awarded, and contracted the \$312M JUMP 2.0 research initiative with fifteen corporate partners from the U.S. and like-minded countries. Notably, the 7 Centers selected for award achieved SRC’s goal of having >25% new and young faculty plus all have plans aligned to SRC’s new Broadening Participation pledge. The Centers, summarized in Figure 2, will begin on January 1, 2023, and run through December 31, 2027, supporting ~140 faculty and ~650 undergraduate and graduate students at 41 domestic universities. Unfortunately, while JUMP 2.0 is significant in its size and scope, it does not provide higher levels of support that raise the investment levels beyond the “foundational levels” established over the last ~15 years. As such, JUMP 2.0 will do little to address the 90k+ semiconductor workforce gap facing SRC member companies. To close that gap, we will need additional government amplification that builds upon successful programs like JUMP 2.0 with DARPA.

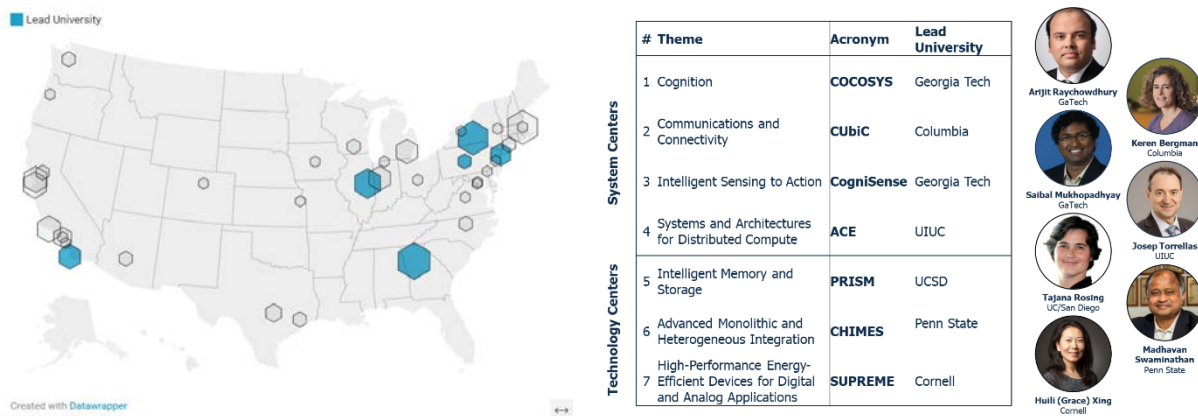


Figure 2. Seven JUMP 2.0 innovation centers will commence and be announced in early January 2023.

Finally, at the end of 2022, SRC and the Board of Directors celebrated the planned retirement of SRC's longtime legal Counsel, Corporate Secretary, and dear friend, W. Clark McFadden II, Esq. Clark was actively involved in all elements of SRC since 1988 and will be sorely missed. His parting words to the SRC Board of Directors inspire all of us at SRC to carry on the legacy that he and others protected for so many years, noting that "through collaboration, SRC is making a positive and visible difference in the world!" Best of luck in your next adventure, Clark! As our new legal Counsel and Corporate Secretary, I'm proud to welcome Elizabeth (Beth) Zane, Esq. of Orrick, Herrington & Sutcliffe LLP, effective on January 1, 2023. Beth is a member of the International Trade & Investment team, regularly advising clients on Export Administration Regulations (EAR), International Traffic in Arms Regulations (ITAR), and government contracting matters. We look forward to benefiting from her support and guidance.

As we look to 2023, these are the high-level Corporate Goals that SRC will organize its effort around:

- Create new and **meaningful technology transfer** and promote awareness within member companies
- Provide and adopt tools that **improve SRC Stakeholder experience** by making it easy to get involved, contribute, and deliver and derive insight quickly
- Successfully launch **JUMP 2.0 centers** that engage member company liaisons and maximize value for all stakeholders
- Deliver **MAPT roadmap** and align SRC research portfolio to **capture public-private partnership funding** that fuels member-relevant SRC R&D and workforce initiatives
- Focus on **workforce development** to generate more member hires of SRC research Scholars, to enhance Scholar programs, and to progress SRC's Broadening Participation pledge

The CHIPS and Science Act, passed on August 9, 2022, provides a once-in-a-generation opportunity to scale U.S. investments in manufacturing R&D and workforce development. In 2023 and beyond, SRC will work to support and inform the U.S. government agencies charged with the CHIPS Act charter. The SRC Board of Directors remains highly supportive of both SRC's involvement in CHIPS Act funding and in working to ensure that SRC's effort - yesterday, today, and tomorrow - feeds the future and the success of CHIPS ACT investments, most notably the National Semiconductor Technology Center (NSTC) and National Advanced Packaging Manufacturing Program (NAPMP). SRC remains ready - trusted, proven, effective, shovel ready, and with a forward-looking plan for both the technology and workforce for tomorrow!

Thank you for your continued support of SRC and its innovation community.



Dr. Todd R. Younkin
President and CEO

Electors of SRC are on the SIA board and financials will be sent to the SIA CEO to be delivered to the SIA board members.

The consolidated financial statements are presented for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed consolidated financial statements will be provided on request.



Semiconductor Research Corporation and Affiliates

Consolidated Financial Statements and Reports and Schedules Required by *Government Auditing Standards* and by the Uniform Guidance

Years Ended December 31, 2022 and 2021

Semiconductor Research Corporation and Affiliates

Consolidated Financial Statements and Reports and Schedules Required by
Government Auditing Standards and by the Uniform Guidance
Years Ended December 31, 2022 and 2021

Semiconductor Research Corporation and Affiliates

Contents

Independent Auditor's Report	3-5
Consolidated Financial Statements	
Consolidated Statements of Financial Position	7
Consolidated Statements of Activities	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-26
Supplemental Schedules	
Consolidating Statements of Activities	28-29
Reports and Schedules Required by <i>Government Auditing Standards</i> and by the Uniform Guidance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	33-35
Schedule of Expenditures of Federal Awards	36
Notes to Schedule of Expenditures of Federal Awards	37
Schedule of Findings and Questioned Costs	38-40



Independent Auditor's Report

The Board of Directors
Semiconductor Research Corporation and Affiliates
Durham, North Carolina

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation 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 opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Corporation'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of activities are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other



records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 August 3, 2023 on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

BDO USA, P.A.

August 3, 2023

Consolidated Financial Statements

Semiconductor Research Corporation and Affiliates

Consolidated Statements of Financial Position

(in thousands of dollars)

December 31,	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 54,490	\$ 52,368
Investments	18,325	20,796
Membership fees receivable	2,398	4,625
Grants receivable	2,228	664
Other current assets	1,109	368
Total current assets	78,550	78,821
Fixed assets		
Computer and office equipment	854	854
Furniture and fixtures	235	235
Total fixed assets	1,089	1,089
Less - accumulated depreciation	(1,068)	(1,027)
Net fixed assets	21	62
Operating lease right-of-use assets	1,684	1,684
Less - amortization	(547)	(272)
Net operating lease right-of-use assets	1,137	1,412
Total Assets	\$ 79,708	\$ 80,295
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Research contracts payable	\$ 27,143	\$ 29,085
Accounts payable and accrued expenses	2,421	1,665
Deferred revenue	7,121	9,567
Deferred tax liability	387	717
Other current liabilities	322	310
Total current liabilities	37,394	41,344
Other noncurrent liabilities	1,039	1,361
Total Liabilities	38,433	42,705
Net Assets Without Donor Restrictions	41,275	37,590
Total Liabilities and Net Assets	\$ 79,708	\$ 80,295

See accompanying notes to consolidated financial statements.

Semiconductor Research Corporation and Affiliates

Consolidated Statements of Activities

(in thousands of dollars)

Years ended December 31,	2022	2021
Change in Net Assets Without Donor Restrictions		
Revenues and gains		
Member fees and participant revenue and fees	\$ 44,771	\$ 46,141
Infrastructure member fees	1,373	1,314
Thrust member fees	6,630	5,425
Net realized and change in net unrealized (losses) gains on investments	(3,620)	775
Investment income	476	1,048
Grant revenue	16,896	21,339
Fellowship revenue	138	147
Management fee revenue	-	9
Other income	-	5
Total revenues and gains	66,664	76,203
Expenses		
Contract research and grant expense	55,846	66,033
Graduate fellowship program	251	315
Management and general	7,139	5,679
Income tax (benefit) expense	(257)	754
Total expenses	62,979	72,781
Change in Net Assets Without Donor Restrictions	3,685	3,422
Net Assets Without Donor Restrictions, at beginning of year	37,590	34,168
Net Assets Without Donor Restrictions, end of year	\$ 41,275	\$ 37,590

See accompanying notes to consolidated financial statements.

Semiconductor Research Corporation and Affiliates

Consolidated Statements of Cash Flows

(in thousands of dollars)

Years ended December 31,	2022	2021
Operating Activities		
Change in net assets	\$ 3,685	\$ 3,422
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41	42
Noncash rent expense	275	272
Deferred taxes	(330)	319
Net realized and change in net unrealized losses (gains) on investments	3,620	(793)
Changes in operating assets and liabilities:		
Membership fees receivable	2,227	1,746
Grants receivable	(1,564)	428
Other assets	(741)	561
Research contracts payable	(1,942)	5,003
Accounts payable and accrued expenses	756	(39)
Deferred revenue	(2,446)	(1,863)
Other liabilities	(310)	1,634
Net Cash Provided by Operating Activities	3,271	10,732
Investing Activities		
Purchases of investments	(19,685)	(15,876)
Proceeds from sale of investments	18,536	16,193
Purchases of fixed assets	-	(21)
Purchase of right of use assets	-	(1,684)
Net Cash Used in Investing Activities	(1,149)	(1,388)
Increase in Cash and Cash Equivalents	2,122	9,344
Cash and Cash Equivalents, beginning of year	52,368	43,024
Cash and Cash Equivalents, end of year	\$ 54,490	\$ 52,368
Supplemental Disclosures of Cash Flow Information		
Federal and state income taxes paid	\$ 527	\$ 800

See accompanying notes to consolidated financial statements.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

1. Description of Organization and Summary of Significant Accounting Policies

Background and Basis of Consolidation

Semiconductor Research Corporation (“SRC” or the “Corporation”) is a nonprofit taxable mutual benefit corporation formed in 1982 to conduct research in the fields of engineering and physical science related to semiconductor development and manufacturing. Activity has centered on initiation and administration of contract research with various institutions and universities. SRC has expended approximately \$1.74 billion since inception through December 31, 2022 relating to fellowships, contract research and grant expenses and industry support activities. SRC’s charter requires that member corporations, which are corporations that manufacture or supply products and/or services that align with the Corporation’s research programs and activities, be assessed membership fees. These fees are subject to certain limitations. Membership fees are based on negotiations between the member corporation and the Corporation and are a set fee.

The consolidated financial statements include the accounts of Semiconductor Research Corporation Education Alliance (“SRCEA”), SRCco Inc. (“SRCco”), formerly known as Microelectronics Advanced Research Corporation and SRC Manufacturing Consortium Corporation (“SRCMCC”). SRCEA was a nonprofit 501(c)(3) education organization and was closed during the year ended December 31, 2022. The organization managed Scholarship and Fellowship Programs and Undergraduate Engineering Programs. SRCco is a nonprofit 501(c)(6) organization formed in 1997 and manages a U.S. university-based pre-competitive New Science Team (“NST”) Initiative in semiconductor technology. SRCMCC is a nonprofit 501(c)(6) organization formed during the year ended December 31, 2022. SRCco, SRCEA and SRCMCC have been consolidated with SRC in the accompanying consolidated financial statements because SRC maintains control of a majority voting interest in all entities. All significant transactions and balances between affiliates have been eliminated in consolidation.

Basis of Accounting and Presentation

The consolidated financial statements of SRC have been prepared on the accrual basis of accounting.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of SRC and changes therein are classified and reported as follows:

- Net assets without donor restrictions - net assets that are not subject to member-imposed stipulations.
- Net assets with donor restrictions - net assets subject to donor-imposed stipulations that are expected to be met either by actions of SRC and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. At both December 31, 2022 and 2021, SRC did not have any net assets with donor restrictions.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of various short-term investments which have original maturities of three months or less. The Corporation maintains cash balances with various financial institutions, which at times may exceed the Federal Deposit Insurance Corporation limits. At December 31, 2022 and 2021, the Corporation had cash balances of approximately \$53,990 and \$52,118 that exceeded the federally insured limits.

Grants Receivable

All grants receivable balances were unbilled at December 31, 2022 and 2021. No impairment losses on grants receivable were recognized during the years ended December 31, 2022 and 2021.

Contract Assets, Contract Receivable and Contract Liabilities

Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* (“ASC 606”) defines a contract asset as an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer. It arises when an entity has performed part or all of a performance obligation but does not yet have the right to bill the customer. As the Corporation has a contractual right to bill for the services before the start of each contract, no material contract assets overlap from one fiscal year to another.

Contract receivables consist of membership fees receivable which are recognized as the Corporation fulfills its performance obligations or has the right to bill its members. Membership fees receivable include both billed and unbilled amounts. Based on the Corporation’s historical collections from members, no allowance for doubtful accounts has been recognized at December 31, 2022 and 2021.

ASC 606 defines a contract liability as an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. The Corporation’s contract liabilities are presented as deferred revenue on the accompanying consolidated statements of financial position and consist of Membership fees or Participant fees received in advance of the term of the membership agreement or participant agreement. Participant fees received or receivable are deferred until specified research projects commence.

For a specific participant agreement, amounts totaling \$749 and \$1,146 were included in deferred revenue as of December 31, 2022 and 2021, respectively, of which no amounts are in accounts receivable. All amounts received and receivables not committed to research projects and the related management expense are fully refundable.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Fixed Assets

Computer and office equipment and furniture and fixtures are recorded at cost, and depreciation is calculated using the straight-line method over the estimated useful life as follows:

Computer and office equipment	3 years
Furniture and fixtures	3-5 years

Fixed assets under lease agreements are depreciated over the lesser of the assets' estimated useful life or lease term.

Revenue from Contracts with Customers

Revenue from contracts with customers primarily consist of member fees, infrastructure member fees, thrust member fees, Research Customization Program member fees, member specific research fees, participant revenue, and participant fees. Each of these revenue streams are further discussed and summarized in Note 2.

Grant Revenue

Revenue from government sponsored grants is considered a contribution in accordance with the guidance under Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. As these revenues are conditionally based on the satisfaction of the Corporation either incurring an allowable expenditure or achieving a predetermined milestone as specified in the respective grant contract, revenue is not recognized until the incremental conditions of the grant contract have been met.

Contract Research and Grants Expense

For all programs, contract research expense is recognized based on a combination of actual invoiced amounts, estimated expenses incurred but not billed, and a variety of internal analysis which includes consideration of contract terms, contract amounts, invoices received to date, expenses recognized to date, and reports submitted by the research institutions as required by the contracts.

Included within contract research and grants expense in the accompanying consolidated statements of activities are industry support expenses totaling approximately \$1,189 and \$1,122 for the years ended December 31, 2022 and 2021, respectively. These expenses relate to special projects undertaken by SRC and are recognized as incurred.

Grants awarded to others are expensed at the time the grant is awarded.

Methods Used for Allocation of Expenses

General and administrative costs that benefit multiple functional areas have been allocated across programs on the proportion of a program's research units as a total of all programs research units.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Income Taxes

SRC operates as a nonprofit taxable mutual benefit corporation, incorporated in the State of California. SRCco is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. SRCEA is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As of December 31, 2022, SRCMCC's tax exempt status from the Internal Revenue Service was pending.

The Corporation may recognize an income tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Corporation measures the tax benefit as the largest amount of the benefit that has greater than a 50% likelihood of being realized upon ultimate settlement.

Liquidity and Availability of Financial Resources

The Corporation's financial assets available within one year of the consolidated statements of financial position date for general expenditures are as follows:

December 31,	2022	2021
Cash and cash equivalents	\$ 54,490	\$ 52,368
Investments	18,325	20,796
Membership fees and grants receivable	4,626	5,289
Total financial assets available within one year	77,441	78,453
Amounts unavailable to management without Board's approval:		
Cash and cash equivalents	(395)	(1,371)
Investments	(18,325)	(20,796)
Total amounts unavailable to management without Board's approval	(18,720)	(22,167)
Total financial assets available to management for general expenditure within one year	\$ 58,721	\$ 56,286

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The Corporation adopted ASU 2016-02 for the annual period ending December 31, 2022 using the modified retrospective approach.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Under this transition provision, results for reporting period beginning on January 1, 2021 are presented under Topic 842 for comparative purposes.

The Corporation elected the “package of practical expedients” permitted under the transition guidance, which among other things, does not require reassessment of whether contracts entered into prior to adoption of ASC 842 are or contain leases, and allows carryforward of the historical lease classification for existing leases. The Corporation measured its Right of Use (“ROU”) asset and liabilities at adoption on January 1, 2021.

Upon adoption, the Corporation recorded ROU assets of approximately \$1,684 and operating lease liabilities of approximately \$1,360 related to the Corporation’s operating leases. The current and long-term portions of the operating lease liability are included in other liabilities, respectively, on the consolidated statements of financial position as of December 31, 2022. The adoption of the new lease standard did not materially impact the consolidated statements of activities or the consolidated statements of cash flows.

Investments

SRC invests primarily in mutual funds and U.S. equities in order to provide a balanced return of investment income and principal appreciation to SRC with a limited risk of loss exposure.

Investments are carried at estimated market values. Changes in the estimated market value of investments are reflected as a change in unrealized gains or losses, which are included in the net realized and net change in unrealized gains and losses on investments amount in the accompanying consolidated statements of activities.

The cost and estimated market values of investments at December 31 are as follows:

	2022		2021	
	Cost	Estimated Market Value	Cost	Estimated Market Value
U.S. equities	\$ 3	\$ 3	\$ 3	\$ 3
U.S. government obligations	393	391	-	-
Mutual funds	10,691	10,474	9,080	9,542
Corporate obligations	168	167	-	-
Mortgage and asset backed securities	19	17	23	24
Exchange traded products	5,443	4,659	8,528	9,503
Annuities	2,550	2,614	1,650	1,724
Total	\$ 19,267	\$ 18,325	\$ 19,284	\$ 20,796

At December 31, 2022 and 2021, SRC’s investment portfolio included \$395 and \$1,371, respectively, in money market funds which are reflected as cash and cash equivalents in the accompanying consolidated statements of financial position and are therefore excluded from the above table.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

The components of net realized and net change in unrealized gains and losses on investments and investment income in the accompanying consolidated statements of activities for the years ended December 31, 2022 and 2021 are as follows:

<i>Years ended December 31,</i>		2022		2021
Interest and dividend income, including earnings on cash and cash equivalents	\$	518	\$	1,073
Net realized (losses) gains		(1,166)		1,088
Change in net unrealized (losses) gains		(2,454)		(295)
Investment fees		(42)		(43)
Net investment return	\$	(3,144)	\$	1,823

Fair Value Measurements

The Corporation adopted the provisions of the Topic 820 - *Fair Value Measurement* (Topic 820) of the FASB Accounting Standards Codification effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. Fair value measurements and related disclosures utilize the fair value hierarchy required by Topic 820, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation include quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 - Inputs to the valuation methodology are unobservable inputs. Unobservable inputs reflect the Corporation’s own assumptions about the factors that other market participants would use in pricing an investment and would be based on the best information available in the circumstances.

Certain estimates and judgments were required to develop the fair value amounts, which are not necessarily indicative of the amounts that would be realized upon disposition, nor do they indicate the Corporation’s intent or ability to dispose of such instruments.

The consolidated statements of financial position carrying amounts of receivables, other assets, research contracts and accounts payable, accrued liabilities and deferred revenue approximate fair value due to the short-term nature of these items.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Investments

U.S. equities and exchange traded products - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds, mortgage and asset backed securities and annuities - Valued from inputs other than quoted prices that are observable for the asset, such as yield curves, interest rate and credit default rates.

A summary of the inputs used in the measurement of fair value, as of December 31, 2022 and 2021, involving the Corporation's assets carried at fair value, is as follows:

<i>December 31, 2022</i>	Level 1	Level 2	Level 3	Total
Investments				
U.S. equities	\$ 3	\$ -	\$ -	\$ 3
U.S. government obligations	391	-	-	391
Mutual funds	10,474	-	-	10,474
Corporate obligations	-	167	-	167
Mortgage and asset backed securities	-	17	-	17
Exchange traded products	4,659	-	-	4,659
Annuities	-	2,614	-	2,614
Total	\$ 15,527	\$ 2,798	\$ -	\$ 18,325

<i>December 31, 2021</i>	Level 1	Level 2	Level 3	Total
Investments				
U.S. equities	\$ 3	\$ -	\$ -	\$ 3
U.S. government obligations	-	-	-	-
Mutual funds	9,542	-	-	9,542
Corporate obligations	-	-	-	-
Mortgage and asset backed securities	-	24	-	24
Exchange traded products	9,503	-	-	9,503
Annuities	-	1,724	-	1,724
Total	\$ 19,048	\$ 1,748	\$ -	\$ 20,796

2. Revenue from Contracts with Customers

In accordance with ASC 606 for exchange transactions, the Corporation recognizes revenue when, or as, performance obligations are satisfied under a contract. A performance obligation is the unit of account for revenue recognition and refers to a promise in a contract to transfer a distinct service or good to the customer. For the majority of contracts, the Corporation combines multiple promises into a single performance obligation due to the multiple promises being either highly interrelated or through providing a significant integration of services that represent a consolidated output. Performance obligations may be satisfied over time or at a point in time, but the majority of the

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Corporation's performance obligations are satisfied over time.

The Corporation evaluates whether it has an enforceable contract with a customer with rights of the parties and payment terms identified, and collectability is probable. The Corporation also evaluates if a contract has multiple promises and if each promise should be accounted for as separate performance obligations or as a single performance obligation.

The transaction price is the amount of consideration defined to be received for performance under the Corporation's contracts. Contract terms define the consideration to be received or the formula for calculating the consideration to be received. The Corporation has no variable consideration in its contracts.

Member Fees

Revenue from members and infrastructure members consist of two performance obligations. The first performance obligation is general member benefits which consists of access to research results, intellectual property rights and access to research students. The performance obligation of general membership benefits is simultaneously received and consumed by the members; therefore, the revenue is recognized evenly over time during the course of the membership term. The second performance obligation is revenue related to the Research Customization Program ("RCP"). The RCP program allows certain members to direct a negotiated percentage of their fees to select university projects which are of particular interest to those members. Revenue for this program is recognized evenly over time during the term of the accompanying research projects selected as the performance obligation is not satisfied until the member selects a project for funding and that project is completed.

Revenue from thrust members consists of one performance obligation, general membership benefits as mentioned in the preceding paragraph. Revenue for these membership types is recognized evenly over time during the membership term, starting at the beginning of the membership term. Revenues from affiliate members are recognized upon receipt as participation in the program is voluntary.

Revenue from member specific research program is recognized evenly over time during the term of the accompanying research projects funded as the performance obligation is not satisfied until the member selects a project for funding and that project is completed.

Participant Revenue

Revenue from government participants consists of one performance obligation, general government participant benefits which consists of access to research results, intellectual property rights and access to research students. The performance obligation of general government participant benefits is simultaneously received and consumed by the government participants; therefore, the revenue is recognized evenly over time during the course of the government participant term, starting at the beginning of the government participant term. In the event that the related research projects are delayed, participant revenue is deferred until the related research projects commence.

Participant Fees

Revenue from NST participants consists of one performance obligation, general participant benefits which consists of access to research results, intellectual property rights and access to research students. The performance obligation of general participant benefits is simultaneously received and

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

consumed by the participants; therefore, the revenue is recognized evenly over time during the course of the participant term. The contracts between SRCco and NST participants stipulate that any net assets which have been accumulated by SRCco from NST activities shall be returned to NST participants upon termination of the NST.

Revenue from NRI participants consists of one performance obligation, general participant benefits which consists of access to research results, intellectual property rights and access to research students. The performance obligation of general participant benefits is simultaneously received and consumed by the participants; therefore, the revenue is recognized evenly over time during the course of the participant term.

Disaggregated Revenues from Contracts with Customers

The following tables summarizes the Corporation's disaggregated revenues from contracts with customers:

<i>Year ended December 31, 2022</i>	SRC	NST	Total
Member fees	\$ 13,168	\$ -	\$ 13,168
Infrastructure member fees	953	-	953
Thrust member fees	6,630	-	6,630
Research Customization Program			
member fees	3,482	-	3,482
Member specific research	29	-	29
Participant fees	-	28,115	28,115
Participant revenue	397	-	397
Fellowship revenue	138	-	138
Total	\$ 24,797	\$ 28,115	\$ 52,912

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

<i>Year ended December 31, 2021</i>	SRC	NST	SRCEA	Total
Member fees	\$ 13,898	\$ -	\$ -	\$ 13,898
Infrastructure member fees	318	-	-	318
Thrust member fees	5,425	-	-	5,425
Research Customization Program member fees	4,116	-	-	4,116
Member specific research	418	-	-	418
Participant fees	-	28,115	305	28,420
Participant revenue	285	-	-	285
Fellowship revenue	147	-	-	147
Management fee revenue	9	-	-	9
Total	\$ 24,616	\$ 28,115	\$ 305	\$ 53,036

Contract Accounts Receivable and Contract Liabilities

The Corporation's contract accounts receivable consists of the following:

<i>December 31,</i>	2022	2021
Billed membership fees receivable	\$ 2,041	\$ 4,072
Unbilled membership fees receivable	357	553
Total	\$ 2,398	\$ 4,625

No impairment losses on membership fees receivable were recognized during the years ended December 31, 2022 and 2021.

The following tables summarize the contract liability activity for the years ended December 31, 2022 and 2021:

<i>Year ended December 31, 2022</i>	Beginning Balance	Ending Balance
Deferred revenue	\$ 9,567	\$ 7,121
Total	\$ 9,567	\$ 7,121

<i>Year ended December 31, 2021</i>	Beginning Balance	Ending Balance
Deferred revenue	\$ 11,430	\$ 9,567
Total	\$ 11,430	\$ 9,567

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

At December 31, 2022 and 2021, the Corporation's aggregate amount of unsatisfied performance obligations was entirely represented by the above deferred revenue balances of \$7,121 and \$9,567, respectively. The Corporation expects the full amount outstanding as of December 31, 2022 and 2021 to be recognized over the respective and remaining membership, member specific research, and participant terms.

3. Operating Leases

The Corporation leases office space under an operating lease. The Corporation determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The Corporation categorizes leases with contractual terms longer than twelve months as either operating or finance. The Corporation's leases generally have terms that range from one to five years, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement.

Lease right of use assets and lease liabilities are included in operating lease right-of-use assets and other liabilities, respectively, on the consolidated statements of financial position. Lease assets represent the Corporation's right to use an underlying asset for the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease.

Operating lease right of use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the risk-free rate at the commencement date in determining the present value of future payments.

Rental expense under operating leases amounted to approximately \$292 for the years ended December 31, 2022 and 2021.

Minimum future lease payments under non-cancelable operating leases at December 31, 2022 are as follows:

<i>Year ending May 31</i>	Operating Leases
2023	\$ 335
2024	343
2025	352
2026	360
Total minimum lease payments	\$ 1,390

4. Benefit Plans

SRC sponsors a number of defined contribution plans. The two principal defined contribution plans are the 401(k) Deferred Compensation plan and the Money Purchase Plan (collectively referred to as the "Plans") which cover all employees. Contributions to the Plans are made by SRC based on percentages of eligible compensation as determined by the Board of Directors. Expense under the 401(k) Deferred Compensation plan was approximately \$276 and \$235 for the years ended December 31, 2022 and 2021, respectively. Expense under the Money Purchase Plan was \$396 and

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

\$369 for the years ended December 31, 2022 and 2021, respectively.

5. Commitments and Contingencies

Beginning January 1, 2018, SRC started two new research programs under SRCco. The Joint University Microelectronics Program (“JUMP”) is a collaborative network of research centers sponsored by industry participants and the Defense Advanced research Projects agency (“DARPA”). The Nanoelectronic Computing Research program (“nCORE”) is a collaborative effort between industry partners, the National Institute of Standards and Technology (“NIST”) and the National Science Foundation (“NSF”). Expenditures under Federal contracts are subject to audit by the respective cognizant agency. As SRC has recorded contracts in accordance with the agency agreement, there are no reserves in its consolidated financial statements as of December 31, 2022 and 2021.

6. Income Taxes

SRC incurred income tax benefit of \$257 and expense of \$754 during the years ended December 31, 2022 and 2021, respectively.

Income tax benefit and expense consisted of the following:

<i>Years ended December 31,</i>	2022	2021
Current:		
Federal	\$ 5	\$ 393
State	68	42
Total current income tax expense	73	435
Deferred:		
Federal	(302)	292
State	(28)	27
Total deferred income tax (benefit) expense	(330)	319
Total income tax (benefit) expense	\$ (257)	\$ 754

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Components of the net deferred income tax assets (liability) were as follows:

<i>Years ended December 31,</i>	2022	2021
Fixed assets	\$ 29	\$ 24
Net operating Loss	337	496
Lease liability	313	384
Unrealized loss on investments	216	-
Total deferred tax assets	895	904
Valuation allowance	(895)	(904)
Total deferred tax assets, net	-	-
Unrealized gain on investments	-	(330)
Right of use asset	(387)	(387)
Total deferred tax liability	\$ (387)	\$ (717)

No unrecognized tax benefits existed as of December 31, 2022 and 2021. SRC did not have any additions to its unrecognized tax benefit resulting from uncertain tax positions related to either the current or prior years, and had no reductions resulting due to settlements. The Corporation does not expect any change in unrecognized tax benefits within the next fiscal year.

7. Net Assets

Net assets without donor restriction are comprised of the following components:

<i>December 31,</i>	2022	2021
Undesignated	\$ 22,555	\$ 15,423
Board designated	18,720	22,167
Total	\$ 41,275	\$ 37,590

8. Related Parties

In 1996, SRC began utilizing personnel from members' companies to assist in program related activities. SRC pays for these services at rates consistent with other providers. Payments for administrative services received from these personnel for the years ended December 31, 2022 and 2021 were approximately \$0 and \$330, respectively, and are included within management and general expense in the accompanying consolidated statements of activities. Additionally, the majority of the Corporation's board of directors is made up of individuals from member organizations.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

9. Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentration of credit risk consist principally of cash and cash equivalents. The Corporation places its cash and cash equivalents in the United States primarily in federally insured financial institutions, which limits its credit exposure. At times, these cash amounts may be in excess of the Federal Deposit Insurance Corporation insurance limits.

A majority of SRC's and SRCco's revenues are generated from membership fees assessed to participating companies in the semiconductor industry. For the year ended December 31, 2022, three companies comprised 32.6%, 19.6% and 7.1% of SRC's membership revenues. For the year ended December 31, 2021, three companies comprised 34.8%, 20.9% and 7.4% of SRC's membership revenues. For the years ended December 31, 2022 and 2021, three companies comprised 47.0%, 9.8% and 8.7% of SRCco's membership revenues.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

10. Expenses by Both Nature and Function

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Corporation. Functional expense by natural classification were as follows:

<i>Year ended December 31, 2022</i>	SRC	NST	SRCMCC	Total
Program Services				
Research contracts and grants given to universities	\$ 17,762	\$ 36,889	\$ -	\$ 54,651
Intellectual property	266	385	-	651
Hosted conferences and events	264	164	-	428
Student support, scholarships and awards	257	110	-	367
Total Program Services	18,549	37,548	-	56,097
Management and General				
Salaries, employee benefits and related taxes	3,400	1,521	-	4,921
Professional fees and contract services	1,371	12	-	1,383
Conferences, travel and staff development	138	67	-	205
Occupancy and maintenance	350	1	-	351
Supplies, communications, shipping and other	168	16	-	184
Business insurance	49	-	-	49
Depreciation	41	-	-	41
Non-payroll tax benefit	(252)	-	-	(252)
Cost allocation	(341)	341	-	-
Total Management and General	4,924	1,958	-	6,882
Total Functional Expenses	\$ 23,473	\$ 39,506	\$ -	\$ 62,979

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

<i>Year ended December 31, 2021</i>	SRC	NST	SRCEA	Total
Program Services				
Research contracts and grants given to universities	\$ 18,385	\$ 46,340	\$ 187	\$ 64,912
Intellectual property	220	489	-	709
Hosted conferences and events	143	150	-	293
Student support, scholarships and awards	312	120	2	434
Total Program Services	19,060	47,099	189	66,348
Management and General				
Salaries, employee benefits and related taxes	2,836	1,333	5	4,174
Professional fees and contract services	626	209	-	835
Conferences, travel and staff development	40	2	-	42
Occupancy and maintenance	333	-	-	333
Supplies, communications, shipping and other	171	26	-	197
Business insurance	51	-	-	51
Depreciation	42	-	-	42
Non-payroll tax expense	758	1	-	759
Cost allocation	(262)	262	-	-
Total Management and General	4,595	1,833	5	6,433
Total Functional Expenses	\$ 23,655	\$ 48,932	\$ 194	\$ 72,781

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

11. Subsequent Events

The Corporation has evaluated subsequent events from December 31, 2022 (the date of the most recent consolidated statements of financial position) through August 3, 2023 (the date of the audit report and the date the consolidated financial statements were available to be issued).

Supplemental Schedules

Semiconductor Research Corporation and Affiliates

Consolidating Statement of Activities

(in thousands of dollars)

<i>Years ended December 31, 2022</i>	SRC	SRCco	Total
Change in Net Assets Without Donor Restrictions			
Revenues and gains			
Member fees and participant revenue and fees	\$ 16,656	\$ 28,115	\$ 44,771
Infrastructure member fees	1,373	-	1,373
Thrust member fees	6,630	-	6,630
Net realized and change in net unrealized losses on investments	(3,620)	-	(3,620)
Investment income	343	133	476
Grant revenue	131	16,765	16,896
Fellowship revenue	138	-	138
Management fee revenue	-	-	-
Other income	-	-	-
Total revenues and gains	21,651	45,013	66,664
Expenses			
Contract research and grant expense	18,298	37,548	55,846
Graduate fellowship program	251	-	251
Management and general	5,181	1,958	7,139
Income tax benefit	(257)	-	(257)
Total expenses	23,473	39,506	62,979
Change in Net Assets Without Donor Restrictions	(1,822)	5,507	3,685
Net Assets Without Donor Restrictions, at beginning of year	21,833	15,757	37,590
Net Assets Without Donor Restrictions, end of year	\$ 20,011	\$ 21,264	\$ 41,275

Semiconductor Research Corporation and Affiliates

Consolidating Statement of Activities

(in thousands of dollars)

<i>Years ended December 31, 2021</i>	SRC	SRCco	SRCEA	Total
Change in Net Assets Without Donor Restrictions				
Revenues and gains				
Member fees and participant revenue and fees	\$ 17,721	\$ 28,115	\$ 305	\$ 46,141
Infrastructure member fees	1,314	-	-	1,314
Thrust member fees	5,425	-	-	5,425
Net realized and change in net unrealized gains on investments	775	-	-	775
Investment income	1,025	6	17	1,048
Grant revenue	-	21,339	-	21,339
Fellowship revenue	147	-	-	147
Management fee revenue	9	-	-	9
Other income	-	5	-	5
Total revenues and gains	26,416	49,465	322	76,203
Expenses				
Contract research and grant expense	18,745	47,099	189	66,033
Graduate fellowship program	315	-	-	315
Management and general	3,841	1,833	5	5,679
Income tax expense	754	-	-	754
Total expenses	23,655	48,932	194	72,781
Change in Net Assets Without Donor Restrictions	2,761	533	128	3,422
Net Assets (Deficit) Without Donor Restrictions, at beginning of year	19,072	15,224	(128)	34,168
Net Assets Without Donor Restrictions, end of year	\$ 21,833	\$ 15,757	\$ -	\$ 37,590

**Reports and Schedules Required by *Government Auditing Standards*
and by the Uniform Guidance**



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Semiconductor Research Corporation and Affiliates
Durham, North Carolina

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 consolidated financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as the “Corporation”), which comprise the Corporation’s consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Corporation’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’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 consolidated 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 have not been identified.



Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.A.

August 3, 2023



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Semiconductor Research Corporation and Affiliates
Durham, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Semiconductor Research Corporation and its affiliates’ (collectively referred to as the “Corporation”) 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 the Corporation’s major federal programs for the year ended December 31, 2022. The Corporation’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“GAAS”); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation 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 the Corporation’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 the Corporation’s federal programs.



Auditor's 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 the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than 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 the Corporation's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation'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 the Corporation'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 the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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



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

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

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

BDO USA, P.A.

August 3, 2023

Semiconductor Research Corporation and Affiliates

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

(in thousands of dollars)

Federal Grantor/Program or Cluster Title	Federal Assistance Listing Number	Provided to Subrecipients	Total Federal Expenditures
EXPENDITURES OF FEDERAL AWARDS:			
Research and Development Cluster:			
U.S. Department of Commerce:			
National Institute of Standards and Technology			
Measurement and Engineering Research and Standards	11.609	\$ 3,352	\$ 3,352
Arrangements for Interdisciplinary Research Infrastructure	11.619	-	131
Total U.S. Department of Commerce		3,352	3,483
Total Research and Development Cluster		3,352	3,483
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 3,352	\$ 3,483

See accompanying notes to schedule of expenditures of federal awards.

Semiconductor Research Corporation and Affiliates

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Semiconductor Research Corporation and its affiliates (the “Corporation”) under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Corporation has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. No indirect costs were expended during the year ended December 31, 2022.

4. Contingencies

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Corporation. In the opinion of management, and with the exception of certain findings presented in the accompanying schedule of findings and questioned costs, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

Semiconductor Research Corporation and Affiliates

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X No

Identification of major federal programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

11.609 and 11.619

Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes No

Semiconductor Research Corporation and Affiliates

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Section II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting.

No financial statement findings were identified that are required to be reported.

Semiconductor Research Corporation and Affiliates

Schedule of Findings and Questioned Costs Year Ended December 31, 2022

Section III - Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs and significant instances of abuse). Where practical, findings should be organized by federal agency or pass-through entity.

No federal award findings were identified that are required to be reported.

