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Annual Report

SRC's community of resolute researchers and life-long learners is amazing. I am proud to report, in 2021 and my first full year as CEO, that we achieved these high-level results:

- **\$90.8M** in Collaborative Relevant Research Dollars (CRRD) that support our R&D and Scholars
- **962** task liaisons, from 25 member companies, engaged in and enriching SRC's agenda
- **136** instances of member vetted technology transfer, logged across all of SRC's programs
- **47** of those technology transfer instances simultaneously benefitted multiple member companies
- **196** SRC Scholars were hired by member companies, as either interns or full time employees

SRC also communicated a visible, industry-relevant plan that will infuse, shape, and define all that we do throughout the decade. Internally, we call these initiatives our "Three Pillars" or "3 Ps." You may also think of this as our plan to adapt and meet the everchanging needs of the semiconductor industry's "**Roaring 20s.**"

Prosperity	The People	The Planet
		
<p align="center"><b>2030 Decadal Plan for Semiconductors</b></p>	<p align="center"><b>Broadening Participation Pledge</b></p>	<p align="center"><b>Commitment to Sustainability</b></p>
<p><i>"Semiconductors help shape the way we live. The Decadal Plan for Semiconductors describes the possibilities for semiconductors in the coming decade and defines the challenges to overcome for realizing that vision."</i></p>	<p><i>"Throughout the decade, as SRC defines, selects, and manages its research and education programs, we will look to grow our student base, establish a balanced mix of bachelors, masters, and Ph.D.-level initiatives, and create a more diverse and inclusive community."</i></p>	<p><i>"We can't rely upon the status quo. We must call upon scientists and engineers to bring innovative new materials, ideas, products, and businesses to the market that would fail to exist if sustainability and environmental factors were not considered."</i></p>

Those Three Pillars are the **2030 Decadal Plan for Semiconductors**, which aims to deliver energy efficient compute-and-communication systems as an asymmetric advantage; SRC's **Broadening Participation Pledge**, which looks to grow and broadly invest in the innovators required to make and deliver that "hard tech;" and SRC's **Commitment to Sustainability**, which will ensure that our technologies and people minimize the impact on our planet from semiconductor manufacturing and systems. A brief summary is illustrated above or you can learn more at [www.src.org/about/](http://www.src.org/about/).

This level of coordinated change and longer-term innovation requires resourcing and support that SRC has not yet realized. The good news, however, is that governments, companies, and universities around the world are waking up to **this Silicon Moment** and calling for the reinjection of much-needed capital into semiconductor factories, the R&D pipeline, and workforce development. When this materializes, our industry will see a "once-in-a-generation" renaissance for microelectronics and advanced packaging technologies. This is long overdue and will be invigorating for the U.S. and its allies. You can bet, with our Three Pillars in hand, that SRC will be a

keystone for such global investments. We are trusted, proven, effective, shovel ready, and have a forward-looking plan for technology and the workforce!

But our mission as a change-agent for this decade is too urgent and important to wait on the action of others. So, armed with our 3 Ps and thought-leading partners, we worked tirelessly throughout the year to realize these key wins for 2021 and beyond:

- **JUMP 2.0.** Partnering with DARPA's Microsystems Technology Office (MTO) and 14 Industry and Defense Companies, SRC announced the official launch of **JUMP 2.0** on December 22<sup>nd</sup>. This program has excellent alignment to **DARPA's ERI 2.0 initiative** and makes an aggressive >\$200M, 5-year commitment to the next generation of multi-discipline, multi-university innovation centers for the 2023-2027 timeframe.
- **NSF-SRC REU Partnership.** The NSF Research Experiences for Undergraduates (REU) program is an extremely effective program at moving U.S. students into graduate studies. Alongside JUMP 2.0, **NSF and SRC created a new partnership** that will add \$9.9M over 5 years and create a network of 24 semiconductor cohorts that support ~630 undergraduates throughout the 2023-2027 timeframe.
- **Significant SRC member growth.** Based on the thought-leadership in our 2030 Decadal Plan for Semiconductors and through our SRC and **SRCco** R&D program plans, we added 7 new industry members and >\$4M/yr. to our agenda. This included MediaTek, ASM, HRL, Boeing, Qorvo, AMAT, and Chemonics Intl., as well as new investments by two long-standing SRC members, Micron and EMD Electronics. They joined the GRC-Environment, Safety, and Health (ESH) initiative, adding emphasis to our call for sustainable and environmentally benign semiconductor manufacturing.

Finally, to push our plans forward, we have put five, high-level operational goals into motion for 2022:

- Resume **face-to-face events** with engaging content for both local and remote attendees
- Create meaningful **technology transfer**, including member hires of SRC Research Scholars
- Solicit, select, and contract compelling **new DARPA centers** for a Jan 2023 kick-off
- Stage our Pillar Science **IT modernization** efforts for assured success and a Jan 2023 launch
- Capture **government funding** that fuels member relevant SRC R&D and workforce initiatives

2022 is going to be a momentous year. We are particularly excited to resume in-person events so that we can meet new people, share our results and ideas, and improve the connectivity of the SRC community.

Thank you for your continued support of SRC.



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 combined 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 combined financial statements will be provided on request.



# Semiconductor Research Corporation and Affiliates

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

Years Ended December 31, 2021 and 2020

## **Semiconductor Research Corporation and Affiliates**

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Combined Financial Statements and Reports and Schedules Required by  
*Government Auditing Standards* and by the Uniform Guidance  
Years Ended December 31, 2021 and 2020

# Semiconductor Research Corporation and Affiliates

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## **Independent Auditor's Report**

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

### **Report on the Audit of the Combined Financial Statements**

#### ***Opinion***

We have audited the combined financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as "SRC" or the "Corporation"), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Corporation as of December 31, 2021 and 2020, 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 Combined 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 Combined Financial Statements***

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

In preparing the combined 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 combined financial statements are issued or available to be issued.



### ***Auditor's Responsibilities for the Audit of the Combined Financial Statements***

Our objectives are to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 combined 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 combined 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 combined financial statements as a whole. 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 combined 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 combined financial statements.



Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined 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 July 22, 2022 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, LLP*

July 22, 2022

## **Combined Financial Statements**

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# Semiconductor Research Corporation and Affiliates

## Combined Statements of Financial Position

*(in thousands of dollars)*

December 31,	2021	2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 52,368	\$ 43,024
Investments	20,796	20,320
Membership fees receivable	5,289	7,463
Other current assets	368	929
Total current assets	78,821	71,736
Fixed assets		
Computer and office equipment	854	838
Furniture and fixtures	235	230
Total fixed assets	1,089	1,068
Less - accumulated depreciation	(1,027)	(985)
Net fixed assets	62	83
<b>Total Assets</b>	<b>\$ 78,883</b>	<b>\$ 71,819</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities		
Research contracts payable	\$ 29,086	\$ 24,082
Accounts payable and accrued expenses	1,666	1,704
Deferred revenue	9,567	11,430
Deferred tax liability	330	398
Total current liabilities	40,649	37,614
Other noncurrent liabilities	258	37
Total Liabilities	40,907	37,651
Net Assets Without Donor Restrictions	37,976	34,168
<b>Total Liabilities and Net Assets</b>	<b>\$ 78,883</b>	<b>\$ 71,819</b>

*See accompanying notes to combined financial statements.*

# Semiconductor Research Corporation and Affiliates

## Combined Statements of Activities

(in thousands of dollars)

Years ended December 31,	2021	2020
<b>Change in Net Assets Without Donor Restrictions</b>		
Revenues and gains		
Member fees and participant revenue	\$ 17,721	\$ 18,959
Infrastructure member fees	1,314	1,119
Thrust member fees	5,425	4,820
Net realized and change in net unrealized gains on investments	775	299
Investment income	1,025	518
Fellowship revenue	147	118
Management fee revenue	9	28
Other	-	9
<b>Total revenues and gains</b>	<b>26,416</b>	<b>25,870</b>
Expenses		
Contract research and grant expense	18,745	19,391
Graduate fellowship program	315	317
Management and general	3,841	3,309
Income tax expense	368	194
<b>Total expenses</b>	<b>23,269</b>	<b>23,211</b>
New Science Team Program		
Participant fees	28,115	28,115
Grant revenue	21,339	19,809
Other income	5	-
Investment income	6	127
Contract research and grant expense	(47,099)	(49,182)
Management and general	(1,833)	(2,340)
<b>Total New Science Team Program</b>	<b>533</b>	<b>(3,471)</b>

# Semiconductor Research Corporation and Affiliates

## Combined Statements of Activities (continued)

(in thousands of dollars)

Years ended December 31,	2021	2020
<b>Change in Net Assets Without Donor Restrictions (continued)</b>		
SRC Education Alliance Program		
Participant fees	\$ 305	\$ 35
Investment income	17	5
Contract research and grant expense	(189)	(36)
Management and general	(5)	(13)
Total SRC Education Alliance Program	128	(9)
<b>Change in Net Assets Without Donor Restrictions</b>	<b>3,808</b>	<b>(821)</b>
<b>Net Assets Without Donor Restrictions, at beginning of year</b>	<b>34,168</b>	<b>34,989</b>
<b>Net Assets Without Donor Restrictions, end of year</b>	<b>\$ 37,976</b>	<b>\$ 34,168</b>

See accompanying notes to combined financial statements.

# Semiconductor Research Corporation and Affiliates

## Combined Statements of Cash Flows

*(in thousands of dollars)*

Years ended December 31,	2021	2020
<b>Operating Activities</b>		
Change in net assets	\$ 3,808	\$ (821)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	42	30
Gain on disposal of fixed assets	-	(3)
Deferred taxes	(68)	3
Net realized gains and change in net unrealized gains on investments	(793)	(303)
Changes in operating assets and liabilities:		
Membership fees receivable	2,174	(2,448)
Other assets	561	165
Research contracts payable	5,004	1,069
Accounts payable and accrued expenses	(38)	(306)
Deferred revenue	(1,863)	(1,716)
Other noncurrent liabilities	221	(885)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>9,048</b>	<b>(5,215)</b>
<b>Investing Activities</b>		
Purchases of investments	(15,876)	(28,713)
Proceeds from sale of investments	16,193	28,247
Purchases of fixed assets	(21)	(75)
Proceeds from sale of fixed assets	-	3
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>296</b>	<b>(538)</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>9,344</b>	<b>(5,753)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>43,024</b>	<b>48,777</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 52,368</b>	<b>\$ 43,024</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Federal and state income taxes paid	\$ 800	\$ 194

*See accompanying notes to combined 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 Combination*

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 \$1.69 billion since inception through December 31, 2021 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 in some cases based on a percentage of their semiconductor sales, use or manufacture. These fees are subject to certain limitations. Other membership fees are based on negotiations between the member corporation and the Corporation and may be a set fee.

The combined financial statements include the accounts of Semiconductor Research Corporation Education Alliance (“SRCEA”) and SRCco Inc. (“SRCco”), formerly known as Microelectronics Advanced Research Corporation. SRCEA is a nonprofit 501(c)(3) education organization. The organization manages 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. SRCco and SRCEA have been combined with SRC in the accompanying combined 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 combination.

#### *Basis of Accounting and Presentation*

The combined 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, 2021 and 2020, 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 combined 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.

### **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, 2021 and 2020.

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 combined 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 \$1,146 and \$1,431 were included in deferred revenue as of December 31, 2021 and 2020, 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.

### **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

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

### **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 combined statements of activities are industry support expenses totaling approximately \$1,122 and \$889 for the years ended December 31, 2021 and 2020, 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.

### **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.

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.

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

### Liquidity and Availability of Financial Resources

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

December 31,	2021	2020
Cash and cash equivalents	\$ 52,368	\$ 43,024
Investments	20,796	20,320
Membership fees receivable	5,289	7,463
Total financial assets available within one year	78,453	70,807
Amounts unavailable to management without Board's approval:		
Cash and cash equivalents	(1,371)	(421)
Investments	(20,796)	(20,320)
Total amounts unavailable to management without Board's approval	(22,167)	(20,741)
Total financial assets available to management for general expenditure within one year	\$ 56,286	\$ 50,066

### Recent Accounting Pronouncements Pending Adoption

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 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*. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. In October 2019, the FASB amended ASU 2016-02 for private companies by deferring the initial mandatory effective date to annual periods beginning after December 15, 2020. In May 2020 the FASB voted to approve the deferral of the effective date for Topic 842 for private companies by one additional year, resulting in a new mandatory effective date of fiscal years beginning after December 15, 2021. Early application is permitted. The Corporation is currently evaluating the impact of adopting this ASU on the Corporation's combined financial statements.

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

### 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 combined statements of activities.

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

	2021		2020	
	Cost	Estimated Market Value	Cost	Estimated Market Value
U.S. equities	\$ 3	\$ 3	\$ 3	\$ 3
Mutual funds	9,080	9,542	11,954	13,172
Mortgage and asset backed securities	23	24	33	35
Exchange traded products	8,528	9,503	4,934	5,460
Annuities	1,650	1,724	1,650	1,650
<b>Total</b>	<b>\$ 19,284</b>	<b>\$ 20,796</b>	<b>\$ 18,574</b>	<b>\$ 20,320</b>

At December 31, 2021 and 2020, SRC's investment portfolio included \$1,371 and \$421, respectively, in money market funds which are reflected as cash and cash equivalents in the accompanying combined statements of financial position and are therefore excluded from the above table.

The components of net realized and net change in unrealized gains and losses on investments and investment income in the accompanying combined statements of activities for the years ended December 31, 2021 and 2020 are as follows:

Years ended December 31,	2021	2020
Interest and dividend income, including earnings on cash and cash equivalents	\$ 1,073	\$ 681
Net realized gains	1,088	308
Change in net unrealized gains	(295)	(4)
Investment fees	(43)	(36)
<b>Net investment return</b>	<b>\$ 1,823</b>	<b>\$ 949</b>

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

### *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 combined 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.

### *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, 2021 and 2020, involving the Corporation’s assets carried at fair value, is as follows:

Description	Level 1	Level 2	Level 3	Total
Investments as of				
December 31, 2021	\$ 19,048	\$ 1,748	\$ -	\$ 20,796
Investments as of				
December 31, 2020	\$ 18,635	\$ 1,685	\$ -	\$ 20,320

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

*(in thousands of dollars)*

### 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 combined output. Performance obligations may be satisfied over time or at a point in time, but the majority of the 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

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

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 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, 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 revenue	-	28,115	305	28,420
Participant fees	285	-	-	285
Fellowship revenue	147	-	-	147
Management fee revenue	9	-	-	9
<b>Total</b>	<b>\$ 24,616</b>	<b>\$ 28,115</b>	<b>\$ 305</b>	<b>\$ 53,036</b>

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

<i>Year ended December 31, 2020</i>	<b>SRC</b>	<b>NST</b>	<b>SRCEA</b>	<b>Total</b>
Member fees	\$ 12,576	\$ -	\$ -	\$ 12,576
Infrastructure member fees	1,119	-	-	1,119
Thrust member fees	4,820	-	-	4,820
Research Customization Program member fees	3,911	-	-	3,911
Member specific research	1,548	-	-	1,548
Participant revenue	-	28,115	35	28,150
Participant fees	924	-	-	924
Fellowship revenue	118	-	-	118
Management fee revenue	28	-	-	28
Other income	9	-	-	9
<b>Total</b>	<b>\$ 25,053</b>	<b>\$ 28,115</b>	<b>\$ 35</b>	<b>\$ 53,203</b>

### ***Contract Accounts Receivable and Contract Liabilities***

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

<i>December 31,</i>	<b>2021</b>	<b>2020</b>
Billed membership fees receivable	\$ 4,073	\$ 5,647
Unbilled membership fees receivable	1,216	1,816
<b>Total</b>	<b>\$ 5,289</b>	<b>\$ 7,463</b>

No impairment losses on membership fees receivable were recognized during the years ended December 31, 2021 and 2020.

The following tables summarize the contract liability activity for the years ended December 31, 2021 and 2020:

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

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

<i>Year ended December 31, 2020</i>	<b>Beginning Balance</b>	<b>Ending Balance</b>
Deferred revenue	\$ 13,146	\$ 11,430
<b>Total</b>	<b>\$ 13,146</b>	<b>\$ 11,430</b>

At December 31, 2021 and 2020, the Corporation's aggregate amount of unsatisfied performance obligations was entirely represented by the above deferred revenue balances of \$9,567 and \$11,430, respectively. The Corporation expects the full amount outstanding as of December 31, 2021 and 2020 to be recognized over the respective and remaining membership, member specific research, and participant terms.

### 3. Operating Leases

SRC leases office space under one noncancelable lease. The lease expires in December 2026 and has minimum rental payments as follows at December 31, 2021:

<i>Year ending December 31,</i>	<b>Amount</b>
2022	\$ 326
2023	335
2024	343
2025	352
2026	360
<b>Total</b>	<b>\$ 1,716</b>

Rent expense was approximately \$292 and \$260 for the years ended December 31, 2021 and 2020, respectively.

### 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 \$235 and \$260 for the years ended December 31, 2021 and 2020, respectively. Expense under the Money Purchase Plan was \$369 and \$371 for the years ended December 31, 2021 and 2020, respectively.

SRC also has an unfunded supplemental deferred compensation plan in which senior executives participate. SRC established a Rabbi Trust to accumulate funds to satisfy its liabilities with respect to this plan. As of December 31, 2021 and 2020, the assets and the corresponding liability related to this plan was \$0. The assets are considered Level 1 investments. The assets and the liability are reported gross on the accompanying combined financial statements, within other noncurrent assets and other noncurrent liabilities, respectively. The Corporation terminated the supplemental deferred compensation plan during 2020.

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

(in thousands of dollars)

### 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 combined financial statements as of December 31, 2021 and 2020.

### 6. Income Taxes

SRC incurred income tax expense of \$368 and benefit of \$194 during the years ended December 31, 2021 and 2020, respectively.

Income tax benefit and expense consisted of the following:

<i>Years ended December 31,</i>	<b>2021</b>	<b>2020</b>
<b>Current:</b>		
Federal	\$ 393	\$ 159
State	42	32
<b>Total current income tax expense</b>	<b>435</b>	<b>191</b>
<b>Deferred:</b>		
Federal	(61)	3
State	(6)	-
<b>Total deferred income tax expense</b>	<b>(67)</b>	<b>3</b>
<b>Total income tax expense</b>	<b>\$ 368</b>	<b>\$ 194</b>

# 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>	<b>2021</b>	<b>2020</b>
Fixed assets	\$ 24	\$ 2
Net Operating Loss	509	407
Deferred revenue	-	423
<b>Total deferred tax assets</b>	<b>533</b>	<b>832</b>
Valuation allowance	(533)	(832)
<b>Total deferred tax assets, net</b>	<b>-</b>	<b>-</b>
Unrealized gain on investments	(330)	(398)
<b>Total deferred tax liability</b>	<b>\$ (330)</b>	<b>\$ (398)</b>

No unrecognized tax benefits existed as of December 31, 2021 and 2020. 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>	<b>2021</b>	<b>2020</b>
Undesignated	\$ 15,809	\$ 13,427
Board designated	22,167	20,741
<b>Total</b>	<b>\$ 37,976</b>	<b>\$ 34,168</b>

### 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, 2021 and 2020 were approximately \$330 and \$474, respectively, and are included within management and general expense in the accompanying combined 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

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*(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, 2021, three companies comprised 34.8%, 20.9% and 7.4% of SRC's membership revenues. For the year ended December 31, 2020, three companies comprised 38.5%, 23.2% and 6.7% of SRC's membership revenues. For the years ended December 31, 2021 and 2020, 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 combined 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, 2021</i>	SRC	NST	SRCEA	Total
<b>Program Services</b>				
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
<b>Total Program Services</b>	<b>19,060</b>	<b>47,099</b>	<b>189</b>	<b>66,348</b>
<b>Management and General</b>				
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	372	1	-	373
Cost allocation	(262)	262	-	-
<b>Total Management and General</b>	<b>4,209</b>	<b>1,833</b>	<b>5</b>	<b>6,047</b>
<b>Total Functional Expenses</b>	<b>\$ 23,269</b>	<b>\$ 48,932</b>	<b>\$ 194</b>	<b>\$ 72,395</b>

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

*(in thousands of dollars)*

<i>Year ended December 31, 2020</i>	SRC	NST	SRCEA	Total
<b>Program Services</b>				
Research contracts and grants given to universities	\$ 19,075	\$ 48,627	\$ -	\$ 67,702
Intellectual property	196	435	-	631
Hosted conferences and events	137	-	-	137
Student support, scholarships and awards	300	120	36	456
<b>Total Program Services</b>	<b>19,708</b>	<b>49,182</b>	<b>36</b>	<b>68,926</b>
<b>Management and General</b>				
Salaries, employee benefits and related taxes	2,566	1,712	13	4,291
Professional fees and contract services	454	387	-	841
Conferences, travel and staff development	22	3	-	25
Occupancy and maintenance	307	-	-	307
Supplies, communications, shipping and other	105	17	-	122
Business insurance	38	-	-	38
Depreciation	30	-	-	30
Non-payroll tax expense	201	1	-	202
Cost allocation	(220)	220	-	-
<b>Total Management and General</b>	<b>3,503</b>	<b>2,340</b>	<b>13</b>	<b>5,856</b>
<b>Total Functional Expenses</b>	<b>\$ 23,211</b>	<b>\$ 51,522</b>	<b>\$ 49</b>	<b>\$ 74,782</b>

# Semiconductor Research Corporation and Affiliates

## Notes to Combined Financial Statements

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*(in thousands of dollars)*

### **11. Subsequent Events**

The Corporation has evaluated subsequent events from December 31, 2021 (the date of the most recent combined statements of financial position) through July 22, 2022 (the date of the audit report and the date the combined financial statements were available to be issued).

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

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## **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 combined financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as “SRC”), which comprise the combined statement of financial position as of December 31, 2021, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated July 22, 2022.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the combined financial statements, we considered SRC’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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SRC’s internal control. Accordingly, we do not express an opinion on the effectiveness of SRC’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 combined 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 SRC's combined 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 combined 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 SRC'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 SRC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

July 22, 2022



## **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

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

We have audited Semiconductor Research Corporation and its affiliates’ (collectively referred to as “SRC”) 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 SRC’s major federal programs for the year ended December 31, 2021. SRC’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, SRC 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, 2021.

### ***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 SRC 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 SRC’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 SRC’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 SRC'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 SRC'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 SRC'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 SRC'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 SRC'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, LLP*

July 22, 2022

# Semiconductor Research Corporation and Affiliates

## Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

*(in thousands of dollars)*

Federal Grantor/Program or Cluster Title	Federal Assistance Listing Number	Provided to Subrecipients	Total Federal Expenditures
<b>EXPENDITURES OF FEDERAL AWARDS:</b>			
<b>Research and Development Cluster:</b>			
U.S. Department of Commerce:			
National Institute of Standards and Technology			
Measurement and Engineering Research and Standards	11.609	\$ 2,989	\$ 2,989
<b>Total U.S. Department of Commerce</b>		<b>2,989</b>	<b>2,989</b>
<b>Total Research and Development Cluster</b>		<b>2,989</b>	<b>2,989</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ 2,989</b>	<b>\$ 2,989</b>

*See accompanying notes to schedule of expenditures of federal awards.*

# Semiconductor Research Corporation and Affiliates

## Notes to Schedule of Expenditures of Federal Awards

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### 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 ("SRC") under programs of the federal government for the year ended December 31, 2021. 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 SRC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SRC.

### 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

SRC 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, 2021.

### 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 SRC. 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, 2021

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### 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

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, 2021

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### 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, 2021

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### 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.

