



®

Semiconductor
Research
Corporation

2019

ANNUAL REPORT

Building the Future

In 2019, SRC grew university research funding by 10% for the benefit of our members across all programs. A new program was launched in Artificial Intelligence (AI) Hardware and a new Materials Research Center as part of the nCORE program opened. Government partnerships were increased with DARPA and NIST through additional funding of new projects. SRC continues to focus on delivering value to our members through technology transfer. As a result, dramatic improvement in our member engagement metric was achieved.

Renewal for SRC is vital. SRC is developing new programs and providing thought leadership for the semiconductor industry. The highlight of 2019 was taking the Decadal Plan for Semiconductors to the next level by hosting in partnership with the Department of Energy two workshops with participation from industry, government, and academia on the topics of compute efficiency and the analog data deluge. These will be followed by three additional workshops in 2020 on 1) communications, 2) memory & storage, and 3) security, culminating in a set of recommendations on target goals the industry should strive to meet by 2030. We continue to partner with our affiliate, the SIA, as they pursue additional government funding to support the semiconductor research to achieve the Decadal Plan targets.

In 2019, progress has been excellent, as SRC has executed to our strategy and positioned the company well for the upcoming years.

Looking ahead to 2020

Facing a one-hundred-year pandemic in 2020, the industry outlook is uncertain. With much of the global workforce heading home to work, demand on the cloud, cloud-based services and personal computers is expected to increase while demand on consumer goods, particularly automobiles, is expected to decrease. SRC will remain focused on delivering value to its members, support and encouragement to its researchers, developing new program concepts and pursuing government funding opportunities while putting the health and safety of our employees at the forefront.

Semiconductor research is a vital component for our industry to continue to deliver on the promise of Moore's Law economics. You can count on SRC to lead the way.



Ken Hansen, 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
Years Ended December 31, 2019 and 2018

Semiconductor Research Corporation and Affiliates

Combined Financial Statements
Years Ended December 31, 2019 and 2018

Semiconductor Research Corporation and Affiliates

Contents

Independent Auditor's Report	3-4
Combined Financial Statements	
Combined Statements of Financial Position	6
Combined Statements of Activities	7-8
Combined Statements of Cash Flows	9
Notes to Combined Financial Statements	10-26
Reports and Schedules Required <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>	28-29
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	30-31
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs	34-36
Summary Schedule of Prior Year Findings	37-41



Independent Auditor's Report

The Board of Directors
Semiconductor Research Corporation

Report on the Financial Statements

We have audited the accompanying combined financial statements of Semiconductor Research Corporation and its affiliates (collectively referred to as "SRC"), which comprise the combined statements of financial position as of December 31, 2019 and 2018, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SRC as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the combined financial statements, in the year ended December 31, 2019, SRC adopted new accounting guidance Financial Accounting Standards Board Accounting Standard Update 2016-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Other Matters

Other 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. The 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 16, 2020 on our consideration of SRC’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 SRC’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 SRC’s internal control over financial reporting and compliance.

BDO USA, LLP

July 16, 2020

Combined Financial Statements

Semiconductor Research Corporation

Combined Statements of Financial Position

(in thousands of dollars)

December 31,	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 48,777	\$ 53,506
Investments	19,551	15,584
Membership fees receivables	5,015	2,261
Other current assets	244	291
Total current assets	73,587	71,642
Fixed assets		
Computer and office equipment	828	798
Furniture and fixtures	230	231
Total fixed assets	1,058	1,029
Less - accumulated depreciation	(1,020)	(965)
Net fixed assets	38	64
Other noncurrent assets	850	1,135
Total Assets	\$ 74,475	\$ 72,841
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Research contracts payable	\$ 23,013	\$ 26,245
Accounts payable and accrued expenses	2,010	2,022
Deferred revenue	13,146	14,759
Deferred tax liability	395	32
Total current liabilities	38,564	43,058
Other noncurrent liabilities	922	1,233
Total Liabilities	\$ 39,486	\$ 44,291
Net Assets Without Donor Restrictions	\$ 34,989	\$ 28,550
Total Liabilities and Net Assets	\$ 74,475	\$ 72,841

See accompanying notes to combined financial statements.

Semiconductor Research Corporation

Combined Statements of Activities

(in thousands of dollars)

Years ended December 31,	2019	2018
Change in Net Assets Without Donor Restrictions		
Revenues and gains		
Member fees and participant revenue	\$ 18,028	\$ 16,439
Infrastructure member fees	1,012	875
Thrust member fees	5,095	4,833
Grant revenue	-	168
Net realized and unrealized gains and losses on investments	1,660	(1,086)
Investment income	638	357
Fellowship revenue	109	147
Management fee revenue	109	173
Other	10	12
Total revenues and gains	26,661	21,918
Expenses		
Contract research and grant expense	19,135	15,313
Graduate fellowship program	147	260
Management and general	3,780	3,828
Income tax expense (benefit)	842	(515)
Total expenses	23,904	18,886
New Science Team program		
Participant fees	28,115	29,515
Grant revenue (NST)	25,400	7,424
Grant revenue (STARnet)	-	3,979
Other income	1	-
Investment income	225	54
Contract research and grant expense	(46,648)	(32,887)
Management and general	(2,233)	(2,236)
Total New Science Team Program	4,860	5,849

Semiconductor Research Corporation
Combined Statements of Activities (continued)

(in thousands of dollars)

<i>Years ended December 31,</i>	2019	2018
Change in Net Assets Without Donor Restrictions (continued)		
SRC Education Alliance Program		
Participant fees	\$ 206	\$ 698
Investment income	20	(11)
Contract research and grant expense	(259)	(664)
Management and general	(25)	(89)
Total SRC Education Alliance Program	(58)	(66)
Nanoelectronics Research Program		
Investment income	13	6
Contract research and grant expense	(967)	(1,299)
Management and general	(166)	(184)
Total Nanoelectronics Research Corporation Program	(1,120)	(1,477)
Change in Net Assets Without Donor Restrictions	6,439	7,338
Net Assets without donor restrictions, at beginning of year	28,550	21,212
Net Assets without donor restrictions, end of year	\$ 34,989	\$ 28,550

See accompanying notes to combined financial statements.

Semiconductor Research Corporation

Combined Statements of Cash Flows

(in thousands of dollars)

Years ended December 31,	2019	2018
Operating Activities		
Change in net assets	\$ 6,439	\$ 7,338
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	55	58
Deferred taxes	363	(764)
Net realized (gains) losses and change in net unrealized losses (gains) on investments	(1,660)	1,086
Changes in operating assets and liabilities:		
Membership fees receivable	(2,754)	(1,689)
Other assets	332	668
Research contracts payable	(3,232)	5,157
Accounts payable and accrued expenses	(12)	175
Deferred revenue	(1,613)	1,371
Other noncurrent liabilities	(311)	(418)
Net Cash (Used in) Provided by Operating Activities	(2,393)	12,982
Investing Activities		
Purchases of investments	(13,303)	(33,890)
Proceeds from sale of investments	10,996	35,841
Purchases of fixed assets	(29)	-
Net Cash (Used in) Provided by Investing Activities	(2,336)	1,951
Net (Decrease) Increase in Cash and Cash Equivalents	(4,729)	14,933
Cash and Cash Equivalents, beginning of year	53,506	38,573
Cash and Cash Equivalents, end of year	\$ 48,777	\$ 53,506
Supplemental Disclosures of Cash Flow Information		
Federal and state income taxes paid	\$ 613	\$ 11

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 \$1.55 billion since inception through December 31, 2019 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”), SRCco Inc. (“SRCco”), formerly known as Microelectronics Advanced Research Corporation, and Nanoelectronics Research Corporation (“NERC”). 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. NERC is a nonprofit 501(c)(6) research management organization formed to manage the Nanoelectronic Research Initiative (“NRI”) program. The NRI program ended during 2019 and NERC has been closed. SRCco, SRCEA, and NERC 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, 2019 and 2018, 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 when the Corporation 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, 2019 and 2018.

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 \$2,283 and \$3,075 were included in deferred revenue as of December 31, 2019 and 2018, 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 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 \$1,067 and \$907 for the years ended December 31, 2019 and 2018, 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 and NERC are exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The 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,	2019	2018
Cash and cash equivalents	\$ 48,777	\$ 53,506
Investments	19,551	15,584
Membership fees receivable	5,015	2,261
Total financial assets available within one year	73,343	71,351
Amounts unavailable to management without Board's approval:		
Cash and cash equivalents	(573)	(2,546)
Investments	(19,551)	(15,584)
Total amounts unavailable to management without Board's approval	(20,124)	(18,130)
Total financial assets available to management for general expenditure within one year	\$ 53,219	\$ 53,221

Recent Accounting Pronouncements Pending Adoption

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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)

Recently Adopted Accounting Pronouncements

During the year ended December 31, 2019, the Corporation adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the topic. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Corporation adopted the new standard on January 1, 2018 and was applied to all contracts with customers using the full retrospective approach. Under this method, the cumulative effect of the new standard was recorded to the opening balance of net asset for the year ended December 31, 2018 (the earliest reporting period presented in the accompanying combined financial statements) to adjust the opening 2018 net assets for the prior revenue recognition of all contracts with customers in accordance with ASC 606. The cumulative impact was primarily due to Research Customization Program member fee transactions having been determined to be exchange transactions with separate performance obligations than the remaining contract with the customers that are satisfied over time, starting at the point an underlying research project is selected by a member. Additionally, as the Corporation's contracts with customers do not have any material significant financing components or contract costs associated with them, no applicable practical expedients elections were made for such items.

As a result of applying the full retrospective method to adopt the new guidance, the following adjustments were made on the combined statements of financial position:

	As Previously Reported		As Adjusted	
	December 31, 2017	Adjustments	December 31, 2017	
Deferred revenue	\$ 9,588	\$ 3,799	\$ 13,387	
Net assets	\$ 25,012	\$ (3,799)	\$ 21,213	

	As Previously Reported		As Adjusted	
	December 31, 2018	Adjustments	December 31, 2018	
Deferred revenue	\$ 9,208	\$ 5,551	\$ 14,759	
Net assets	\$ 34,101	\$ (5,551)	\$ 28,550	

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

The amounts by which the Corporation's combined financial statements were impacted by the adoption of Topic 606, as compared to the guidance in effect before the change, as of and for the years ended December 31, 2019 and 2018, were as follows:

	2019		2018	
	As Reported (Topic 606)	As Adjusted (Topic 605)	As Reported (Topic 606)	As Adjusted (Topic 605)
Revenue	\$ 80,641	\$ 80,841	\$ 63,583	\$ 65,334
Decrease in Net assets	\$ 6,486	\$ 6,686	\$ 7,338	\$ 9,089

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 unrealized gains or losses, which are included in the net realized and 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:

	2019		2018	
	Cost	Estimated Market Value	Cost	Estimated Market Value
U.S. equities	\$ 3	\$ 3	\$ 3	\$ 3
Mutual funds	12,914	13,824	10,978	11,002
Mortgage and asset backed securities	43	45	51	50
Exchange traded products	4,849	5,679	4,417	4,529
Total	\$ 17,809	\$ 19,551	\$ 15,449	\$ 15,584

At December 31, 2019 and 2018, SRC's investment portfolio included \$573 and \$2,546, respectively, in money market funds which are reflected as cash and cash equivalents in the accompanying combined statements of financial position.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

The components of net realized and unrealized gains and losses on investments and investment income in the accompanying combined statements of activities for the years ended December 31, 2019 and 2018 are as follows:

<i>Years ended December 31,</i>		2019		2018
Interest and dividend income, including				
earnings on cash and cash equivalents	\$	929	\$	442
Net realized gains		71		959
Change in net unrealized gains (losses)		1,589		(2,045)
Investment fees		(33)		(36)
Net investment return	\$	2,556	\$	(680)

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 - Quoted prices in active markets for identical debt and equity securities.

Level 2 - Prices determined using quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 - Prices determined using significant 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.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

A summary of the inputs used in the measurement of fair value, as of December 31, 2019 and 2018, 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, 2019	\$ 19,506	\$ 45	\$ -	\$ 19,551
Investments as of				
December 31, 2018	\$ 15,534	\$ 50	\$ -	\$ 15,584

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

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

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 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.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Disaggregated Revenues from Contracts with Customers

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

<i>Year ended December 31, 2019</i>	SRC	NST	SRCEA	NERC	Total
Member fees	\$ 11,384	\$ -	\$ -	\$ -	\$ 11,384
Infrastructure member fees	767	-	-	-	767
Thrust member fees	5,095	-	-	-	5,095
Research Customization Program					
member fees	2,438	-	-	-	2,638
Member specific research	3,279	-	-	-	3,279
Participant revenue	793	-	-	-	793
Participant fees	-	28,115	206	-	28,321
Fellowship revenue	109	-	-	-	109
Management fee revenue	109	-	-	-	109
Other income	389	1	-	-	390
Total	\$ 24,363	\$ 28,116	\$ 206	\$ -	\$ 52,685

<i>Year ended December 31, 2018</i>	SRC	NST	SRCEA	NERC	Total
Member fees	\$ 11,350	\$ -	\$ -	\$ -	\$ 11,350
Infrastructure member fees	685	-	-	-	685
Thrust member fees	4,833	-	-	-	4,833
Research Customization Program					
member fees	849	-	-	-	849
Member specific research	3,874	-	-	-	3,874
Participant revenue	557	-	-	-	557
Participant fees	-	29,515	698	-	30,213
Fellowship revenue	147	-	-	-	147
Management fee revenue	173	-	-	-	173
Other income	12	-	-	-	12
Total	\$ 22,480	\$ 29,515	\$ 698	\$ -	\$ 52,693

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Contract Accounts Receivable and Contract Liabilities

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

<i>December 31,</i>		2019		2018
Billed membership fees receivable	\$	2,497	\$	1,332
Unbilled membership fees receivable		2,518		929
Total	\$	5,015	\$	2,261

No impairment losses on membership fees receivable were recognized during the years ended December 31, 2019 and 2018.

The following tables summarize the contract liability activity for the years ended December 31, 2019 and 2018:

<i>Year ended December 31, 2019</i>		Beginning Balance		Ending Balance
Deferred revenue	\$	14,759	\$	13,146
Total	\$	14,759	\$	13,146

<i>Year ended December 31, 2018</i>		Beginning Balance		Ending Balance
Deferred revenue	\$	13,387	\$	14,759
Total	\$	13,387	\$	14,759

At December 31, 2019 and 2018, the Corporation's aggregate amount of unsatisfied performance obligations was entirely represented by the above deferred revenue balances of \$13,146 and \$14,759, respectively. The expects the full amount outstanding as of December 31, 2019 to be recognized over the respective and remaining membership, member specific research, and participant terms.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

3. Operating Leases

SRC leases office space under one noncancelable lease. The lease expires in October 2021 and has minimum rental payments as follows at December 31, 2019:

<i>Year ending December 31,</i>		Amount
2020	\$	323
2021		276
Total	\$	599

Rent expense was approximately \$288 for the years ended December 31, 2019 and 2018.

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 \$245 and \$246 for the years ended December 31, 2019 and 2018, respectively. Expense under the Money Purchase Plan was \$336 and \$327 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the assets and the corresponding liability related to this plan were approximately \$850 and \$1,135, respectively. 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 subsequent to December 31, 2020.

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, 2019 and 2018.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

6. Income Taxes

SRC incurred income tax expense (benefit) of \$842 and benefit of \$515 during the years ended December 31, 2019 and 2018, respectively.

Income tax benefit and expense consisted of the following:

<i>Years ended December 31,</i>	2019	2018
Current:		
Federal	\$ 364	\$ 178
State	115	71
Total current income tax expense	479	249
Deferred:		
Federal	332	(725)
State	31	(39)
Total deferred income tax expense (benefit)	363	(764)
Total income tax expense (benefit)	\$ 842	\$ (515)

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

<i>Years ended December 31,</i>	2019	2018
Fixed assets	\$ 12	\$ 18
Net operating loss	-	908
Total deferred tax assets	12	926
Valuation allowance	(12)	(926)
Total deferred tax assets, net	-	-
Unrealized gain on investments	(395)	(32)
Total deferred tax liability	\$ (395)	\$ (32)

No unrecognized tax benefits existed as of December 31, 2019 and 2018. 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.

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

7. Net Assets

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

<i>December 31,</i>		2019		2018
Undesignated	\$	14,865	\$	10,420
Board designated		20,124		18,130
Total	\$	34,989	\$	28,550

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, 2019 and 2018 were approximately \$540 and are included within management and general expense in the accompanying combined statements of activities.

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, 2019, three companies comprised 38.2%, 22.9% and 7.6% of SRC's membership revenues. For the year ended December 31, 2018, three companies comprised 39.0%, 23.4% and 7.6% of SRC's membership revenues. For the year ended December 31, 2019, three companies comprised 47.0%, 9.8% and 8.7% of SRCco's membership revenues. For the year ended December 31, 2018, three companies comprised 49.5%, 9.3% and 8.5% 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, 2019</i>	SRC	NST	NRI	SRCEA	Total
Program Services					
Research contracts and grants given to universities	\$ 18,572	\$ 46,158	\$ 953	\$ 62	\$ 65,745
Intellectual property	214	256	14	-	484
Hosted conferences and events	349	114	-	-	463
Student support, scholarships and awards	147	120	-	197	464
Total Program Services	19,282	46,648	967	259	67,156
Management and General					
Salaries, employee benefits and related taxes	2,721	1,413	94	25	4,252
Professional fees and contract services	688	350	31	-	1,069
Conferences, travel and staff development	110	89	11	-	210
Occupancy and maintenance	354	-	-	-	354
Supplies, communications, shipping and other	190	13	-	-	203
Business insurance	48	-	-	-	48
Depreciation	56	-	-	-	56
Non payroll tax (benefit) expense	852	-	1	-	853
Cost allocation	(397)	368	29	-	-
Total Management and General	4,622	2,233	166	25	7,046
Total Functional Expenses	\$ 23,904	\$ 48,881	\$ 1,133	\$ 284	\$ 74,202

Semiconductor Research Corporation and Affiliates

Notes to Combined Financial Statements

(in thousands of dollars)

Year ended December 31, 2018

	SRC	NST	NRI	SRCEA	Total
Program Services					
Research contracts and grants given to universities	\$ 14,770	\$ 32,580	\$ 1,256	\$ 281	\$ 48,887
Intellectual property	199	162	43	-	404
Hosted conferences and events	344	105	-	13	462
Student support, scholarships and awards	260	40	-	370	670
Total Program Services	15,573	32,887	1,299	664	50,423
Management and General					
Salaries, employee benefits and related taxes	2,775	1,427	105	56	4,363
Professional fees and contract services	774	377	42	32	1,225
Conferences, travel and staff development	79	61	11	1	152
Occupancy and maintenance	363	7	-	-	370
Supplies, communications, shipping and other	60	13	1	-	74
Business insurance	40	-	-	-	40
Depreciation	107	-	-	-	107
Non payroll tax (benefit) expense	(510)	1	-	-	(509)
Cost allocation	(375)	350	25	-	-
Total Management and General	3,313	2,236	184	89	5,822
Total Functional Expenses	\$ 18,886	\$ 35,123	\$ 1,483	\$ 753	\$ 56,245

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, 2019 (the date of the most recent combined statement of financial position) through July 16, 2020 (the date of the audit report and the date the combined financial statements were available to be issued).

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Corporation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

Access to grants and contracts from federal governments may decrease or may not be available depending on appropriations. The outbreak may have a material adverse impact on economic and market conditions, triggering a period of global economic slowdown.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The Corporation does not believe the CARES Act will have a significant impact on their business.

Although the Corporation cannot estimate the length or gravity of the impact of the COVID-19 outbreak or the CARES Act at this time, if the pandemic continues, it may have an adverse effect on the Corporation’s results of future operations, financial position, and liquidity in fiscal year 2020.

**Reports and Schedules Required by *Government Auditing Standards*
and 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

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, 2019, 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 16, 2020.

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) to determine 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 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 may exist that have not been identified.



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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

July 16, 2020



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

Report on Compliance for 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 described 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, 2019. SRC’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of SRC’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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”). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SRC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SRC’s compliance.

Opinion on Each Major Federal Program

In our opinion, SRC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.



Report on Internal Control Over Compliance

Management of SRC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SRC's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 16, 2020

Semiconductor Research Corporation

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

(in thousands of dollars)

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures	Provided to Subrecipients
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	\$ 2,888	\$ 2,888
Total U.S. Department of Commerce		2,888	2,888
Total Research and Development Cluster		2,888	2,888
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 2,888	\$ 2,888

See accompanying notes to schedule of expenditures of federal awards.

Semiconductor Research Corporation

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 ("SRC") under programs of the federal government for the year ended December 31, 2019. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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, 2019.

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

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

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:

CFDA 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?

 Yes X No

Semiconductor Research Corporation

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

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

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

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 material 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.



Summary Schedule of Prior Year Findings

Finding 2018-001

Type of Finding:

Financial statement finding.

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

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 *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. During our audit procedures we identified certain deficiencies with respect to the preparation of the Schedule of Expenditures of Federal Awards (“SEFA”) and the recognition of grant contract research expense that we deemed to rise to the level of a significant deficiency.

Condition:

The SEFA was not prepared on the accrual basis of accounting for the year ended December 31, 2018. As a result, certain expenditures related to a prior fiscal period were inappropriately included in the balances reported on the SEFA for the year ended December 31, 2018. Additionally, expenses for certain research grant contracts that were recognized ratably over the term of the contract did not take into account delays in contract initiation, resulting in recorded expense that was materially in excess of actual costs.

Status of Findings as of December 31, 2019:

No similar findings noted in 2019.

Finding 2018-002

Type of Finding:

Federal award finding.

Federal Program Information:

Research and Development Cluster (CFDA#: 11.609 and 11.619)



Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

C. Cash Management - Non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR section 200.305(b)).

Condition:

The Company was unable to provide expenditure details that represented actual, incurred expenditures that reconcile to each draw request amount made during the year ended December 31, 2018.

Status of Findings as of December 31, 2019:

No similar findings noted in 2019.

Finding 2018-003

Federal Program Information:

Research and Development Cluster (CFDA#: 11.609 and 11.619)

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

B. Allowable Costs/Cost Principles (Effort Certification) - Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits. Costs of compensation charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges are for work performed. Per the Uniform Guidance §200.430, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;



- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity.
- (vi) [Reserved]
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.
- (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:
 - (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and
 - (C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

G. Level of Effort - Payroll charges may be made initially on the basis of estimates made before the services are performed, but the institution is required to subsequently confirm that the labor effort costs charged to an award reasonably represent the actual labor effort. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports must be signed by the employee or responsible official(s) using suitable means of verification that the work was performed. The Uniform Guidance also requires that the after-the-fact reporting be prepared each academic year, but no less frequently than every six months.



Condition:

Certain payroll expenditures identified in our sample represented personnel costs of employees that did not allocate time and effort to the grant award.

Status of Findings as of December 31, 2019:

No similar findings noted in 2019.

Finding 2018-004

Federal Program Information:

Research and Development Cluster (CFDA#: 11.609)

Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):

M. Subrecipient Monitoring - All pass-through entities must: (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes: (1) Federal Award Identification. (i) Subrecipient name (which must match the name associated with its unique entity identifier); (ii) Subrecipient's unique entity identifier; (iii) Federal Award Identification Number (FAIN); (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency; (v) Subaward Period of Performance Start and End Date; (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient; (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation; (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity; (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA); (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity; (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement; (xii) Identification of whether the award is R&D; and (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs) (2 CFR 200.331).



Condition:

Certain subaward contracts identified through our testing did not contain all necessary information required to be communicated to the respective subrecipients.

Status of Findings as of December 31, 2019:

No similar findings noted in 2019.

