(A Component Unit of the University of Nebraska)

Independent Auditor's Report and Financial Statements

June 30, 2022 and 2021

Board of Regents
University of Nebraska
Lincoln, Nebraska

Opinion

We have audited the financial statements of the University Technology Development Corporation (UTDC), a component unit of the University of Nebraska, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise UTDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the University Technology Development Corporation, as of June 30, 2022 and 2021, and the changes in financial position 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). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of UTDC 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2022, UTDC adopted Governmental Accounting Standards Board Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to
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Introduction

This discussion and analysis are designed to provide an overview of the financial position and activities of the University Technology Development Corporation (UTDC) for the years ended June 30, 2022 and 2021. This analysis has been prepared by management of UTDC and is intended to be read in conjunction with the financial statements and the related notes that follow.

UTDC is an entity created by the Board of Regents of the University of Nebraska (the University) to provide governance and oversight over technology and research enterprises that serve the University and its four campuses. UTDC is a component unit of the University of Nebraska. The individual component units included in the financial statements are as follows:

NUtech Ventures (NUtech)	Tech transfer support and activities at the University of Nebraska-Lincoln (UNL)
UNeMed Corporation (UNeMed) formerly UNMCTech	Tech transfer support and activities at the University of Nebraska Medical Center (UNMC)
NE Enterprises, Inc. (NEI) (formerly UNeMed)	Oversees and develops growing business development opportunities internationally and domestically
Med Center Development Corporation (MCDC)	Provides support and assistance for the development of

around technology transfer, patents, and related activities; and distributions made to inventors, university colleges, and the campuses of the University. The distributions are fixed by agreement by the campuses with the researchers/inventors and their university departments.

The statement of net position of UTDC comprises primarily of payables, receivables and cash. A net deficit in any one year, in the opinion of management, represents a temporary condition relating to the timi1 Tc81001 T693ipempm

Financial and Operating Highlights – 2022

The financial results of UTDC can vary widely depending on the success of licensing, patent, and grants and contracts activity, many of which entail onetime payments in the transfer process.

Operating revenues were approximately $36 million in FY22, compared to $26 million in FY21, an increase of about 38%. During 2020, operating revenues were $33 million. The primary driver of the increase came from NDRC, whose revenues increased $12 million in FY22 due to expansion of operations under three federal contracts. This was offset by a decrease of about $3 million in federal grants and contracts revenue at NSRI.

Economic Outlook and Subsequent Events that Will Affect the Future

The component units of UTDC are primary directed to two strategic areas: research and development activities. Research growth is one of the highest strategic objectives of the University.

- For the federal fiscal year ending September 30, 2022, NSRI was awarded 14 contracts at a total value of about $6 million. NSRI continues to support the U.S. Strategic Command and other federal sponsors under its University-Affiliated Research Center (UARC) mission to perform critical research and development activities for national security.

- NUtech Ventures continues to focus on patenting, marketing, and licensing of UNL and UNK technologies for transfer from the lab to the marketplace, including continued emphasis and expansion of resources to support campus inventor-entrepreneur founders for commercialization of technology via startup companies.

- NICDC opened The Scarlet Hotel and is working on implementing the Economic Development Administration’s Build Back Better Grant to the Heartland Robotics Cluster Coalition.

- UNeMed continues to foster innovation, advance research and engage entrepreneurs and industry to commercialize novel technologies that make the world a better place.

- NEI continues to facilitate business development opportunities and is developing a new service to help support faculty and staff that consult with industry.

- BIOTT is starting to establish business processes and build relationships to serve as the financial support to accelerate University-supported startup opportunities.

- UVDCK is currently contracted with private partners for residential and commercial development including the Element 30 housing project and the Regional Engagement Center. In addition, UVDCK has also contracted with the City of Kearney for the Ernest Grundy Tennis Center.

- NDRC continues to expand capabilities and concept demonstration efforts to support their Nuclear Command, Control and Communications Enterprise Center (NEC) sponsor. NDRC was awarded an $11.4 million contract to build a 19,000 square foot facility in Bellevue that will support classified market research and demonstration efforts with mission partners.

Current assets		
Cash and cash equivalents	$ 11,284	$ 11,311
Cash and cash equivalents - restricted	23	-
Accounts receivable, net	6,903	6,170
Due from related parties	702	932
Lease receivable	18	-
Prepaid expenses	823	143
Total current assets	19,753	18,556
Noncurrent assets		
Capital assets, net of accumulated depreciation	6,912	117
Lease receivable, net of current portion	1,456	-
Right-to-use leased assets, net of accumulated amortization	5,880	3,744
Total noncurrent assets	14,248	3,861
Total assets	34,001	22,417
Current liabilities		
Accounts payable	1,690	1,066
Accrued compensated absences	493	432
Royalties	628	654
Due to related parties	9,446	11,281
Unearned revenue	23	2
Lease liability	457	408
Total current liabilities	12,737	13,843
Noncurrent liabilities		
Accrued compensated absences, net of current portion	142	209
Lease liability, net of current portion	5,573	3,432
Total noncurrent liabilities	5,715	3,641
Total liabilities	18,452	17,484
Deferred inflows of resources		
Deferred lease arrangements	1,480	-
Total deferred inflows of resources	1,480	-
Net position		
Net investment in capital assets	6,203	15
Restricted for		
Expendable		
Externally restricted funds for infrastructure and maintenance	23	-
Unrestricted	7,843	4,918
Total net position	$ 14,069	$ 4,933

Cash flows from operating activities			
Gifts, grants, and contracts received	$	26,717	$ 19,362
License, patent, and research cash received		7,188	7,291
Other operating receipts		1,555	1,237
Payments to vendors		(21,626)	(14,096)
Payments to employees		(12,225)	(12,895)
Payments to campuses		(3,524)	(3,692)
Net cash flows used in operating activities		(1,915)	(2,793)
Cash flows from capital and related financing activities			
Capital gifts		-	550
Transfer of assets from other University sources		8,810	6,010
Purchase of capital assets		(6,320)	(28)
Interest paid on capital debt and leases		(73)	

Reconciliation of operating income (loss) to net cash flows used in operating activities		
Operating income (loss)	$ 456	$ (7,471)
Adjustments to reconcile operating income (loss) to net cash flows used in operating activities:		
Depreciation of capital assets	75	324
Amortization of right-to-use assets	585	486
Changes in assets and liabilities:		
Accounts receivable, net and due from related parties	(487)	713
Prepaid expenses	(680)	48
Accrued compensated absences	(6)	81
Accounts payable, royalties, and due to related parties	(1,879)	3,024
Unearned revenue	21	2
Net cash flows used in operating activities	$ (1,915)	$ (2,793)

Noncash transactions		
Capital expenditures in accounts payable	$ 550	$ -
Accrued compensated absences liability transfer from University	-	59
Assumption of liability by the University of Nebraska	-	495
Gain on dissolution of subsidiary company	-	19
Lease obligation incurred f		

Reporting Entity - Continued

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Grants and Contracts

Grants and contracts revenues are recognized as earned on an accrual basis as projects are completed and the results delivered to external sponsors.

Research Income

Research revenue is recognized when earned on an accrual basis as services are provided to clients and reflected primarily as grants and contracts in the statements of revenues, expenses, and changes in net position.

Unearned Revenue

Unearned revenue consists of unearned payments of license fees or advanced funding for future research.

Income Distributions

Income distributions to inventors, departments, deans and directors, and research offices are determined based on established policy and agreements among NUtech, UNeMed Corporation, and NEI, with their respective campuses. Distributions to campuses and inventors represent payments to the University, inventors, and research scientists for the use of or marketing of patented inventions or discoveries. UTDC and its component units undertake the identification and negotiation of nondisclosure agreements and technology licenses for technology developed by University faculty. Agreements for the marketing of technology include provisions for the distribution of revenues to the University campuses and faculty inventors.

Tax Status

UTDC and its component units, except for NEI, qualify as nonprofit organizations under Section 501(c)(3) of the Code. Accordingly, no provision for federal or state income taxes is required on the related income pursuant to Section 501(a) of the Code.

NEI is a for-profit component units of UTDC and is required to pay federal and state income taxes according to the Code and Nebraska State Statutes. NEI does not have a significant income tax liability as the majority of the liability was covered by a pre-tax reform net operating loss carryover.

NEI has deferred tax assets, related to investments in startup companies. Management has determined that it is more likely than not that NEI will not be able to utilize these deferred tax assets during the carryover periods, and therefore, a valuation allowance has been recorded for all deferred tax assets.

Deferred Inflows of Resources

UTDC reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its statements of net position.

Compensated Absences

NSRI and NDRC permit employees to accumulate vacation leave that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the statements of net position date plus an additional amount for compensation-related payments using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the statements of net position date is included in other long-term liabilities.

Net Position

Net position consists of three parts. One is net investment in capital assets, which comprises right-of-use leased assets, net of accumulated amortization, and leasehold improvements and equipment, and net of depreciation. Second, UTDC holds externally restricted funds for infrastructure and maintenance. The remaining portion includes the net amount of assets and liabilities that are not included in the determination of net investment in capital assets and restricted net position.

Estimates

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

Change in Accounting Principle

Effective for the fiscal year ended June 30, 2022, UTDC adopted GASB Statement No. 87, Leases, (“GASB 87”). This statement supersedes GASB Statement No. 62 and establishes new requirements for calculating and reporting UTDC’s lease activities. The adoption date of GASB 87 is reflected as of July 1, 2020, resulting in an increase in right-of-use assets of $4,230 and increase in leases payable of $4,230. These balances were calculated using the facts and circumstances that existed at July 1, 2020, as prescribed by GASB 87. There was no impact to beginning net position at July 1, 2020.

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, UTDC's deposits may not be returned to it. UTDC does not have a formal custodial credit risk policy. At June 30, 2022 and 2021, approximately $375, and $8,758, respectively, of UTDC's bank balances were uninsured and uncollateralized.

Capital asset activity for the year ended June 30, 2022 is as follows:

Lessee

UTDC leases office space from external parties. In accordance with GASB Statement No. 87, UTDC records right-to-use assets and lease liabilities based on the present value of expected payments over the term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the University of Nebraska's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. For leases featuring payments tied to an index or market rate, the valuation is based on the initial index or market rate. UTDC does not have any leases subject to a residual value guarantee. The right-to-use assets are amortized over the shorter of the lease term or the underlying asset useful life.

Right-to-use leased asset activity for the year ended June 30, 2022 is as follows:

Buildings	$ 4,230	$ 2,721	$ -	$ 6,951
Total	4,230	2,721	-	6,951
Less accumulated amortization for:				
Buildings	486	585	-	1,071
Total	486	585	-	1,071
Right-to-use assets, net	$ 3,744	$ 2,136	$ -	$ 5,880

Right-to-use leased asset activity for the year ended June 30, 2021 is as follows:

Lessor

UTDC leases land to external parties. In accordance with GASB Statement No. 87, UTDC records lease receivables and deferred inflows of resources based on the present value of remaining lease payments expected to be received during the lease term plus any payments received at or before the commencement of the lease term that relate to future periods. The expected receipts are discounted using the interest rate charged on the lease, if known, or the University of Nebraska's incremental borrowing rate. Variable receipts are excluded from the valuations unless they are fixed in substance. Future recognition of the deferred inflow of resources as revenue is performed in a systematic and rational manner over the term of the lease.

NUtech, UNeMed, NICDC, and NSRI have established operating agreements with UNL and UNMC relating to reimbursement of overhead costs incurred. The transfers from University sources are shown as other nonoperating revenues in the statement of revenues, expenses, and changes in net position. Amounts reimbursed during the years ended June 30, 2022 and 2021 are as follows:

Reimbursement to NARI from University Sources	$ -	$ 495
Reimbursement to NDRC from University Sources	2,000	-
Reimbursement to UVDCK from University Sources	186	-
Reimbursement to NUtech from University Sources	1,277	1,129
Reimbursement to NICDC from University Sources	450	370
Reimbursement to NEI from University Sources	900	960
Reimbursement to MCDC from University Sources	10	74
Reimbursement to UNeMed from UNMC	1,760	1,760
Reimbursement to NSRI from University Sources	1,900	1,864
Reimbursement to UTDC from University Sources	250	-
	$ 8,733	$ 6,652

The outstanding receivables from and payables to related parties at June 30, 2022 and 2021 are the result of the agreements described herein, are current in nature, and are routinely cleared as a matter of business with the related parties. In fiscal years 2021, the University transferred an accrued compensated absences liability to NSRI. This amount was previously recorded on the University's financial statements on behalf of NSRI in fiscal year 2019. As of June 30, 2021, no further liability exists on the University's financial statements related to the accrued compensated absences of NSRI.

NUtech, UNeMed, NICDC, and UVDCK employees also receive retirement benefits according to the University's retirement plan. The defined-