

University Technology Development Corporation

(A Component Unit of the University of Nebraska)

Independent Auditor's Report
and Financial Statements

June 30, 2021 and 2020

University Technology Development Corporation

(A Component Unit of the University of Nebraska)

June 30, 2021 and 2020

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Independent Auditor's Report

Board of Regents
University of Nebraska

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

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the University Technology Development Corporation, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Management’s Discussion and Analysis
June 30, 2021 and 2020
(In thousands)

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, 2021 and 2020. 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/investigators and their university departments.

Financial and Operating Highlights – 2021

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 \$26 million in FY21, compared to \$33 million in FY20, a decrease of about 20%. During 2019, operating revenues were \$29 million. Overall financial activity decreased in FY21, primarily due to the effects of COVID-19, as this reduced the capacity to facilitate new license income and engage in research and development activity.

Total operating expenses were reduced about 8% in FY21, from \$30,640 to \$28,041. This level compares to operating expenses of 30,712 in 2019. The 2021 decrease resulted from about \$1.1 million of decrease in compensation and benefits as well as a \$1.5 million decrease in supplies and services. As with revenues, decreased levels of activity due to COVID-19 restraints caused these reductions in operating expenses.

The investment by the University in UTDC and its component units creates economic activity for the State of Nebraska and the larger economy, and provides funding back to the inventors, colleges, and campuses. This is recapped below as extracted from the related financial statements.

| | 2021 | 2020 | 2019 | Three-year total |
|--------------------------------------------------|-----------|-----------|-----------|------------------|
| Operating assets transferred from the University | \$ 6,652 | \$ 7,666 | \$ 7,758 | \$ 22,076 |
| Activity generated (operating expenses): | | | | |
| Compensation and benefits | \$ 12,353 | \$ 13,447 | \$ 11,951 | \$ 37,751 |
| Research and other activities | 15,364 | 16,855 | 18,429 | 50,648 |
| Royalties | 2,249 | 2,018 | 2,109 | 6,376 |
| Distributions to campuses | 3,643 | 4,460 | 4,785 | 12,888 |
| Total activity generated | \$ 33,609 | \$ 36,780 | \$ 37,274 | \$ 107,663 |

Over a three-year period, the University has invested approximately \$22 million in the UTDC component units. In return, these entities have leveraged this investment and University technologies to generate approximately \$108 million in economic activity: approximately \$38 million in benefit-paying jobs; \$51 million to campus research activities; \$6 million in royalties; and \$13 million in distributions back to deans, directors, and campuses.

Financial and Operating Highlights – 2020

Operating revenues were approximately \$33 million in FY20, compared to \$29 million in FY19, an increase of about 15%. During 2018, operating revenues were \$20 million. Proceeds from products of a key license agreement gaining market share continue to provide significant income to NUtech Ventures. Further, NSRI saw a 21% increase in grants and contracts revenue during FY20.

Total operating expenses remained stable when comparing 2020 to 2019 at \$30,640 and \$30,712, respectively. This level compares to operating expenses of \$24,852 in 2018. While 2020 saw about a \$1.5 million increase in compensation and benefits, it was offset by a decrease of about \$1.6 million in supplies and services.

Changes to other categories of revenues and expenses were minimal in 2020 and 2019.

Economic Outlook and Subsequent Events that Will Affect the Future

The component units of UTDC are primarily 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, 2021, NSRI was awarded 15 contracts at a total value of about \$25 million. Additionally, NSRI was awarded a \$25 million Indefinite Delivery Indefinite Quantity (IDIQ) contract with the National Nuclear Security Administration for strategic deterrence and nuclear threat reduction support. NSRI continues to support the U.S. Strategic Command and other federal sponsors under its University Affiliated Research Center mission in performing critical research 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 renewed emphasis and expansion of resources to support campus inventor-entrepreneur founders for commercialization of technology via startup companies.

NICDC continues growth with a Marriott Tribute series hotel scheduled to open in early 2022. Other major projects are in the planning stage.

MCDC has completed preliminary platting, an interlocal agreement with the City of Omaha to fund roads and infrastructure and awarded request for proposals for an Innovation Hub and Administrative Tower. Construction scheduled to commence in 2022.

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

NEI works to facilitate domestic and international business development opportunities

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 complex and the Regional Engagement and Alumni Center. In addition, UVDCK has also contracted with the City of Kearney for the Ernest Grundy Tennis Center.

NDRC was awarded \$2.7 million in federal contracts to support the development of nuclear command, control and communications capabilities in its first fiscal year of operations. These contracts funded the initial stand-up of NDRC and establishment of a coalition of mission partners to demonstrate novel capabilities to U.S. Government sponsors. An additional \$16.4 million in early fiscal year 2022 was awarded to support the build-out of an interim facility for collaboration and demonstr

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statements of Net Position
June 30, 2021 and 2020
(In thousands)

Assets

2021

2020

Current Assets

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020
(In thousands)

| | 2021 | 2020 |
|-----------------------------------------------|----------|----------|
| Operating Revenues | | |
| License income | \$ 7,024 | \$ 7,177 |
| Grants and contracts - Federal | 18,271 | 23,470 |
| Grants and contracts - State and Local | 10 | 179 |
| Other operating revenues | 1,187 | 2,579 |
| Total operating revenues | 26,492 | 33,405 |
| Operating Expenses | | |
| Direct operating expenses: | | |
| Compensation and benefits | 12,353 | 13,447 |
| Supplies and services | 15,364 | 16,855 |
| Depreciation | 324 | 338 |
| Total direct operating expenses | 28,041 | 30,640 |
| Distributions to campuses and inventors: | | |
| Inventors | 1,994 | 1,892 |
| University colleges | 973 | 936 |
| University campuses | 2,670 | 3,524 |
| External sponsors | 255 | 126 |
| Total distributions to campuses and inventors | 5,892 | 6,478 |
| Total operating expenses | 33,933 | 37,118 |
| Operating loss | (7,441) | (3,713) |
| Nonoperating Revenues (Expenses): | | |
| Gifts | 550 | - |
| Investment income | 4 | 13 |
| Transfers fr.6(bu)6.1 | | |

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statements of Cash Flows
Years Ended June 30, 2021 and 2020
(In thousands)

| | 2021 | 2020 |
|---------------------------------------------|-------------|-------------|
| Cash Flows From Operating Activities | | |
| Gifts, grants, and contracts received | \$ 19,362 | \$ 21,927 |
| License, patent, and research cash received | 7,291 | 6,985 |
| Other operating receipts | 1,237 | 2,672 |
| Payments to vendors | (14,552) | (20,588) |
| Payments to employees | (12,895) | (12,336) |

University Technology Development Corporation

(A Component Unit of the University of Nebraska)

Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 1: Summary of Significant Accounting Policies

Organization

The University Technology Development Corporation (UTDC) is a public benefit corporation organized exclusively for charitable purposes within the scope of Section 501(c)(3) of the Internal Revenue Code (the Code). The purpose of UTDC is to promote, encourage, and assist research and scholarly activities of the faculty, staff, alumni, and students of the University of Nebraska (the University). UTDC is governed by a board of directors appointed by the President of the University. While UTDC is a legally separate entity, it is a blended component unit of the University. The major accounting principles and practices followed by UTDC are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

The financial statements are the responsibility of the UTDC board of directors and have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The statements include the activities of UTDC and its component units. All intercompany transactions have been eliminated in combination.

Reporting Entity

The reporting entity consists of UTDC and the following nine nonprofit component units and one for-profit component unit. In each case, UTDC is the sole member/stockholder. The primary purpose of the component units is to support the research mission of the University and its campuses and advance academic technology transfer globally through fostering strategic collaborations with industry through licensing, research, and new venture agreements.

NUtech Ventures (NUtech) is a technology transfer organization primarily serving the University of Nebraska–Lincoln (UNL) campus. The management of the affairs of the corporation is vested in a board of directors appointed by the Chancellor of UNL.

NE Enterprises, Inc. (NEI, formerly UNeMed), a for-profit entity, oversees and develops growing business development opportunities internationally and domestically. UTDC, by proxy, has designated the Chancellor of University of Nebraska Medical Center (UNMC) to act as its stockholder.

UNeMed Corporation (UNeMed, formerly UNMC Tech) is a technology transfer organization primarily serving the UNMC campus.

Med Center Development Corporation (MCDC) provides support and assistance for the development of properties owned by the University and enhancement of the midtown Omaha area near the UNMC campus.

University Technology Development Corporation

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Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 1: Summary of Significant Accounting Policies – Continued

Reporting Entity - Continued

Nebraska Innovation Campus Development Corporation (NICDC) facilitates the development of the former State Fair Park into a research park campus to promote, encourage, and assist the University in achieving its mission of education, research, and service to the State of Nebraska and its people.

Nebraska Applied Research Institute (NARI) was organized to conduct applied research in the cybersecurity of control systems for the government, utilities, and corporations and, in doing so, create opportunities for University of Nebraska students and faculty. Due to University budget constraints caused by the COVID-19 pandemic, NARI will conclude its operations in FY21.

National Strategic Research Institute (NSRI) was organized as a University Affiliated Research Center (UARC) to conduct research and development in areas consistent with the educational, scientific, charitable, and service goals of the University of Nebraska and the core capabilities identified with a federally sponsored UARC.

Biomedical Technology Transfer Corporation (BIOTT) was organized as the business arm of UNeTech, a translational research institute and startup incubator for the University of Nebraska Medical Center and the University of Nebraska-Omaha. BIOTT receives donations to invest in startup companies participating in the UNeTech incubator.

University Village Development Corporation of Kearney (UVDCK), a non-profit organization, provides support and oversight for the development of land near the University of Nebraska-Kearney (UNK) campus for residential, commercial, and recreational use to benefit the University, local community, region and State of Nebraska.

Nebraska Defense Research Corporation (NDRC) was organized to create a nuclear command, control and communication network, collectively known as NC3, to help modernize the digital communications network utilized by the United States Government.

All of these entities are considered blended component units under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and have been presented in a single column within these financial statements.

Basis of Presentation

The financial statements of UTDC have been prepared using the economic resources measurement focus and the accrual basis of accounting. These statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by GASB.

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

Note 1: Summary of Significant Accounting Policies - Continued

University Technology Development Corporation

(A Component Unit of the University of Nebraska)

Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 1: Summary of Significant Accounting Policies - Continued

License Income

License income is recognized when earned on the accrual basis in accordance with the substance of the respective agreements and when the underlying right to receive payment has been established.

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.

University Technology Development Corporation

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Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 1: Summary of Significant Accounting Policies - Continued

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

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Notes to Financial Statements
June 30, 2021 and 2020
(In thousands)

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2021 is as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|------------------------------------|------------------------------|------------------------|------------------|---------------------------|
| Leasehold improvements | \$ 1,332 | \$ - | \$ - | \$ 1,332 |
| Equipment | <u>339</u> | <u>28</u> | <u>339</u> | 28 |
| Total | <u>1,671</u> | <u>28</u> | <u>339</u> | 1,360 |
| Less accumulated depreciation for: | | | | |
| Leasehold improvements | 944 | 294 | - | 1,238 |
| Equipment | <u>142</u> | <u>30</u> | <u>167</u> | 5 |
| Total | <u>1,086</u> | <u>324</u> | <u>167</u> | 1,243 |
| Capital assets, net | <u><u>\$ 585</u></u> | <u><u>\$ (296)</u></u> | 172 | \$ 117 |

University Technology Development Corporation
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Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 4: Leases

UTDC leases certain facilities under operating lease agreements. Rent expense under the operating leases was \$540 and \$508 in fiscal years 2021 and 2020, respectively. Minimum lease payments under operating leases for the year ending June 30, 2021 are:

| | | |
|-----------|----|-------|
| 2022 | \$ | 470 |
| 2023 | | 483 |
| 2024 | | 463 |
| 2025 | | 403 |
| 2026 | | 334 |
| 2027–2031 | | 898 |
| 2032–2034 | | 564 |
| | | 564 |
| | \$ | 3,615 |

Note 5: Related-Party Transactions

NUtech, UNeMed, NICDC, and NSRI have established operating agreements with University of Nebraska–Lincoln (UNL) and University of Nebraska Medical Center (UNMC) relating to reimbursement of overhead costs incurred. The transfers from University sources are shown as other nonoperating revenues in the statements of revenues, expenses, and changes in net position. Amounts reimbursed during the years ended June 30, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|-------------------------------------------------|-------------|-------------|
| Reimbursement to NARI from University sources | \$ 495 | \$ 500 |
| Reimbursement to NUtech from University sources | 1,129 | 1,242 |
| Reimbursement to NICDC from University sources | 370 | 250 |
| Reimbursement to NEI from University sources | 960 | 1,147 |
| Reimbursement to MCDC from University sources | 74 | 192 |
| Reimbursement to UNeMed from University sources | 1,760 | 1,760 |
| Reimbursement to NSRI from University sources | 1,864 | 2,475 |
| Reimbursement to UTDC from University sources | - | 100 |
| | \$ 6,652 | \$ 7,666 |

University Technology Development Corporation
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Notes to Financial Statements

June 30, 2021 and 2020

(In thousands)

Note 5: Related-Party Transactions - Continued

The outstanding receivables from and payables to related parties at June 30, 2021 and 2020 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 and 2020, 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.

Note 6: Retirement Plan

NUtech, UNeMed, NARI, and NICDC employees also receive retirement benefits according to the University's retirement plan. The defined-contribution plan covers all academic faculty, administrative, and classified staff and provides investment options administered by Teachers Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) and Fidelity Investments. Under the plan, faculty and staff are required to contribute 3.5% or 5.5% if they participate in either Tier 1 or Tier 2 of the plan, respectively. The University matches faculty and staff participation by contributing 6.5% and 8.0% for Tier 1 and Tier 2, respectively. The policy is to fund costs accrued on an annual basis. Contributions made by employees for the years ended June 30, 2021 and 2020 were \$132 and \$181, respectively. Contributions made by the component units for the years ended June 30, 2021 and 2020 were \$192 and \$263, respectively. NSRI does not have a retirement matching plan, but employees may designate a certain amount to be withheld from their pay for deposit with Fidelity Investments.

Note 7: Accrued Compensated Absences

NUtech, UNeMed, and NICDC pay employees through the payroll system of the University. The University is reimbursed for the salary and benefits expenses of these three UTDC component units. The remaining component units with employees, NSRI and NDRC, process payroll separately.

Accrued compensated absences for NSRI and NDRC are as follows at June 30:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
| 2021 | \$ 493 | \$ 554 | \$ 406 | \$ 641 | \$ 432 |
| 2020 | \$ 121 | \$ 754 | \$ 382 | \$ 493 | \$ 298 |