University Technology Development Corporation (A Component Unit of the University of Nebraska)

Independent Auditor’s Report and Financial Statements

March 31, 2024

Contents

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 fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UTDC’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about UTDC’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

[redacted]

Lincoln, Nebraska
October 11, 2024

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statement of Net Position
March 31, 2024
(In thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	11,560
Cash and cash equivalents - restricted		180
Investments - restricted		22
Accounts receivable, net		9,765
Due from related parties		949
Lease receivable		5,440
Prepaid expense		182
Total current assets		28,098
Noncurrent assets:		
Capital assets, net of accumulated depreciation		7,488
Right-to-use lease assets, net of accumulated amortization		9,675
Right-to-use subscription assets, net of accumulated amortization		75

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statement of Revenues, Expenses and Changes in Net Position
For the Nine-Month Period Ending March 31, 2024
(In thousands)

Operating revenues:		
License income	$	5,154
Grants and contracts - Federal		25,848
Other operating revenues		2,878
Total operating revenues		33,880
Operating expenses:		
Direct operating expenses:		
Compensation and benefits		11,243
Supplies and services		43,697
Depreciation of capital assets		1,641
Amortization of right-to-use assets		810
Total direct operating expenses		57,391
Distributions to campuses and inventors:		
Inventors		1,586
University colleges		751
University campuses		1,898
External sponsors		164
Total distributions to campuses and inventors		4,399
Total operating expenses		61,790
Operating loss		(27,910)
Nonoperating revenues (expenses):		
Investment income		451
Transfers from University sources		9,175
Transfers to University sources		(272)
Lease revenue and interest income on leases		373
Interest expense on right-to-use assets		(105)
Nonoperating revenues, net		9,622
Decrease in net position		(18,288)
Net position:		
Beginning of period, as previously reported		34,928
Correction of an error (See Note 1)		579
Beginning of period, as revised		35,507
End of period	$	17,219

University Technology Development Corporation
(A Component Unit of the University of Nebraska)
Statement of Cash Flows
For the Nine-Month Period Ending March 31, 2024
(In thousands)

Cash flows from operating activities:		
Gifts, grants, and contracts received	$	24,130
License, patent, and research cash received		5,074
Other operating receipts		1,032
Payments to vendors		(43,205)
Payments to employees		(10,886)
Payments to campuses		(2,649)
Net cash flows used in operating activities		(26,504)
Cash flows from capital and related financing activities:		
Net transfer of assets from other University sources		6,398
Purchase of capital assets		(54)
Interest paid on leases		(65)
Principal paid on leases		(1,036)
Lease incentive payment received		962
Receipts from leasing arrangements		319
Other receipts		54
Net cash flows provided by capital and related financing activities		6,578
Cash flows from investing activities:		
Investment income		449
Purchases of investments		(21)
Net cash flows provided by investing activities		428
Net change in cash and cash equivalents		(19,498)
Cash and cash equivalents – beginning of period		31,238
Cash and cash equivalents – end of period	$	11,740
Cash and cash equivalents - end of period as presented in statement of net position:		
Cash and cash equivalents	$	11,560
Net change in Cash and cash equivalents - restrict)		

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.

Classification of Revenues and Expenses

UTDC has classified its revenues and expenses as either operating or nonoperating revenues and expenses according to the following criteria:

Operating Revenues and Expenses – Operating revenues and expenses include activities that have the characteristics of exchange transactions.

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions transferred from the University, investment income, and other revenue sources.

Nonoperating Expenses – Nonoperating expenses are nonexchange activities of a nonoperating nature.

Distributions to campuses and inventors – Distributions to campuses and inventors include the distribution of royalties to campuses and inventors as defined in royalty sharing agreements.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, savings accounts, and money market accounts.

Accounts Receivable, Net

Accounts receivable represent amounts resulting from business activities and are routinely cleared in the normal course of doing business. UTDC management has deemed an allowance for uncollectible accounts to be unnecessary as all amounts owed are deemed to be fully collectible.

Capital Assets

Capital assets are stated at cost at the date of acquisition or at fair value if contributed. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are 25 to 40 year for leasehold improvements and 20 to 30 year for land improvements. Equipment is generally depreciated from 2 to 10 year depending on its useful life. Leasehold improvements are depreciated over the estimated useful lives or the term of the related lease, whichever is shorter.

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to the place asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

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 statement 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 statement 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-to-use lease and subscription assets, net of accumulated amortization, and leasehold improvements and equipment, net of depreciation/amortization. Second, UTDC holds externally restricted funds for infrastructure, maintenance and economic development. 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.

Revision of Beginning Balances

UTDC noted two error corrections that required revision to beginning net position in the amount of $579. Descriptions of each error correction are detailed below:

NDRC received a $408 gift of previously unrecognized equipment and supplies in 2023. This correction caused an increase in gift revenue of $408, as well as increases to capital assets of $380, depreciation expense of $10, accumulated depreciation of $10, and supplies and services expense of $28. The net impact on beginning net position for this error correction was an increase of $370.

NDRC previously recognized $209 of expense in 2023 for capital assets that were prepaid and held at the vendor's facility. This correction caused an increase to capital assets (deposits on capital assets) of $209 and a decrease to supplies and services expense of $209. The net impact on beginning net position for this error correction was an increase of $209.

Note 2. Deposits

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 March 31, 2024, approximately $9,200 of UTDC’s bank balances were uninsured and uncollateralized.

Note 3. Capital Assets

Capital asset activity for the nine-month period ending March 31, 2024 is as follows:

	Beginning Balance (as Revised)	Additions	Disposals	Transfers	Ending Balance
Leasehold Improvements	$ 7,686	$ 10	$ -	$ -	$ 7,696
Equipment	3,895	44	-	-	3,939
Right-to-use lease assets	7,150	5,578	1,433	-	11,295
Right-to-use subscription assets	353	-	14	-	339
Total	19,084	5,632	1,447	-	23,269
Less accumulated depreciation for:					
Leasehold Improvements	1,971	753	-	-	2,724
Equipment	535	888	-	-	1,423
Less accumulated amortization for:					
Right-to-use lease assets	1,615	728	723	-	1,620
Right-to-use subscription assets	197	82	15	-	264
Total	4,318	2,451	738	-	6,031
Capital assets, net	$ 14,766	$ 3,181	$ 709	$ -	$ 17,238

Note 4. Leases

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. During the nine-month period ending March 31, 2024, no variable payments were made. 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.

Lease liability activity for the nine-month period ending March 31, 2024 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Lease Liability	$ 5,621	$ 6,540	$ 1,462	$ 10,699	$ 1,038

As of March 31, 2024, the scheduled fiscal year maturities of lease liabilities and related interest expense are as follows:

Fiscal Year Ending March 31,	Principal	Interest
2025	$ 1,038	$ 362
2026	1,133	334
2027	1,281	302
2028	1,326	263
2029	1,369	221
2030-2034	4,350	553
2035-2039	26	

The outstanding receivables from and payables to related parties at March 31, 2024 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.

Note 6. Retirement Plan

NUtech, UNeMed, NICDC, and UVDCK 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.

NDRC adopted a Paychex Pooled Employer Plan during fiscal year 2022. Under the plan, employee contributions are matched 100% by NDRC up to 3% of employee compensation. Employee contributions that exceed 3% but do not exceed 4% are matched 50% by NDRC. Any contributions exceeding 4% of compensation are not matched by NDRC.

NSRI has a retirement plan with Fidelity Investments. NSRI will match employee contributions up to 3.5% of employee compensation. Any contributions exceeding 3.5% of compensation are not matched by NSRI.

Contributions made by employees for the nine-month period ending March 31, 2024 were $449. Contributions made by the component units for the nine-month period ending March 31, 2024 were $315.

Note 7. Accrued Compensated Absences

NUtech, UNeMed, NICDC, and UVDCK pay employees through the payroll system of the University. The University is reimbursed for the salary and benefits expenrti002 2xpn, Tw[p1e)5.5(ad)eeesiyseated1mi9(tivit)8ti.