University Corporation for Advanced Internet Development

Report on Federal Awards in Accordance With the OMB Uniform Guidance
December 31, 2015
EIN 52-2060187

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Independent Auditor's Report

To the Board of Trustees of University Corporation for
Advanced Internet Development

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of University Corporation for Advanced Internet Development and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated 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 consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2015 and 2014, 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 2 to the consolidated financial statements, the Corporation has restated its 2014 financial statements to correct for certain errors. Our opinion is not modified with respect to this matter.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2015 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 March 31, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2015. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

March 31, 2016

University Corporation for Advanced Internet Development
Consolidated Statements of Financial Position
December 31, 2015 and 2014

	2015	2014 *(restated)*
Assets		
Current assets		
Cash, cash equivalents and restricted cash	$ 26,540,009	$ 20,637,180
Receivables		
Accounts receivable, less allowance for uncollectible accounts of $240,210 in 2015 and $213,000 in 2014	12,059,854	10,407,813
Grants	229,610	588,318
Other receivables	410,146	995,071
	12,699,610	11,991,202
Prepaid expenses and other assets	4,626,805	4,251,651
Total current assets	43,866,424	36,880,033
Net property and equipment	86,845,767	95,934,286
Other long-term assets	708,966	781,988
Total assets	$ 131,421,157	$ 133,596,307
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 7,195,542	$ 3,865,953
Other accrued expenses	7,650,532	7,043,035
Accrued salaries, wages, and related amounts	1,467,243	1,447,248
Deferred revenue	35,935,165	30,492,595
Deferred revenue - government grant	6,142,142	6,142,142
Contract advances and agency transactions	1,737,167	2,261,596
Current portion, equipment loan	992,000	937,000
Current portion, capital lease obligation	1,572,180	1,543,353
Total current liabilities	62,691,971	53,732,922
Other liabilities		
Deferred revenue	21,820,279	23,479,442
Deferred revenue - government grant	33,735,308	39,877,450
Capital lease obligation	3,370,949	4,943,329
Equipment loan	2,183,743	3,175,771
Other long term liabilities	816,425	753,689
Total liabilities	124,618,675	125,962,603
Unrestricted net assets	6,802,482	7,633,704
Total liabilities and net assets	$ 131,421,157	$ 133,596,307

The accompanying notes are an integral part of these consolidated financial statements.

University Corporation for Advanced Internet Development
Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014 *(restated)*
Revenue and other support		
Network fees	$ 41,149,208	$ 35,992,812
Member dues	11,442,921	10,193,752
Income from grants	7,504,571	8,885,636
Other revenue	18,177,385	11,189,219
Total revenue and other support	78,274,085	66,261,418
Direct costs of revenues	11,947,590	8,528,237
Expenses		
Program services		
Network	39,801,913	33,887,685
Member services	7,720,584	6,393,952
Internet2 Net+ services	6,714,091	5,941,345
Chief Technology Officer activities	149	2,039,894
US UCAN	503,648	679,781
Special Funds Projects	4,733,840	1,679,646
Integration and architecture	1,903,061	2,617,839
Chief Innovation officer activities	749,713	-
	62,126,999	53,240,143
Management and general	5,676,865	4,811,395
Total expenses	67,803,864	58,051,538
Gain (loss) on disposal of property and equipment	6,055	(628,965)
Operating loss	(1,471,313)	(947,321)
Nonoperating gains (losses)		
Contributions	587,065	-
Investment income	53,026	38,052
Nonoperating gains	640,091	38,052
Decrease in net assets	(831,222)	(909,270)
Net assets		
Beginning of year	7,633,704	8,542,974
End of year	$ 6,802,482	$ 7,633,704

The accompanying notes are an integral part of these consolidated financial statements.

University Corporation for Advanced Internet Development
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014 *(restated)*
Cash flows from operating activities and nonoperating gains and losses		
Decrease in net assets	$ (831,222)	$ (909,270)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and nonoperating gains and losses		
Depreciation and amortization	13,028,801	12,758,499
Net provision for bad debts	60,720	310,712
Loss (gain) on disposal of property and equipment	(6,055)	628,965
Changes in operating assets and liabilities		
Accounts receivable	(1,712,761)	(6,060,282)
Grants and other receivables	943,633	(457,015)
Prepaid expenses and other assets	(106,962)	(1,277,917)
Accounts payable and accrued expenses	3,919,273	2,947,501
Accrued salaries, wages, and related amounts	19,995	391,074
Deferred revenue and contract advances	(2,883,164)	(4,479,801)
Termination obligation	-	(1,694,154)
Other long-term liabilities	62,736	(116,573)
Net cash provided by operating activities and nonoperating gains and losses	12,494,994	2,041,739
Cash flows from investing activities		
Purchases of property and equipment	(3,807,638)	(6,282,015)
Proceeds from sales of property and equipment	6,055	2,126
Purchases of other long-term assets	(310,000)	-
Advances on short term note receivable	(110,000)	-
Repayments on short term note receivable	110,000	-
Net cash used in investing activities	(4,111,583)	(6,279,889)
Cash flows from financing activities		
Payments on equipment loan facility	(937,029)	(887,229)
Proceeds from capital lease obligation	-	4,375,861
Payments on capital lease obligation	(1,543,553)	(619,440)
Net cash (used in) provided by financing activities	(2,480,582)	2,869,192
Increase (decrease) in cash and cash equivalents	5,902,829	(1,368,958)
Cash, cash equivalents and restricted cash		
Beginning of year	20,637,180	22,006,138
End of year	$ 26,540,009	$ 20,637,180
Supplemental disclosures		
Cash paid for interest	$ 478,644	$ 385,865
Property additions included in accounts payable/accrued expense	284,777	266,964

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Significant Accounting Policies

Organization

University Corporation for Advanced Internet Development (the Corporation) is a membership organization incorporated for the primary purpose of promoting research and education through the cooperative and collaborative efforts of universities, agencies of federal and state governments, research and industrial companies, and other not-for-profit organizations. Members of the Corporation consist mainly of higher education institutions, as well as for-profit and not-for-profit organizations.

The Corporation's members advance the state of the art in networking. During 2010, the Corporation began construction of a new network to replace the Corporation's existing network. During 2012 substantial portions of the network were placed in service, and the network was completed in 2013 (See Note 4). The network consists of long-term dark fiber indefeasible rights of use (IRU's) and certain other telecommunications equipment the Corporation owns. In addition to providing greater opportunities for advancing networking research, the new network is connecting more hospitals, public libraries, and other "community anchors" in hopes of stimulating development of new applications.

The consolidated financial statements include the accounts of the Corporation and its supporting organizations, InCommon LLC (InCommon), National Research & Education Fiber Company, LLC (FiberCo), and Advanced Infrastructure for Research and Education LLC (AIRE). Significant intercompany accounts and transactions have been eliminated in the consolidation.

InCommon was established in December 2004 as a federation for sharing information and resources among participating higher education institutions and their sponsored partners in a standardized fashion, while protecting privacy, respecting copyrights, and fostering collaboration and innovation.

FiberCo was established in April 2003 as a holding company for fiber assets acquired by the Corporation to support non-profit national and regional optical networking initiatives through the resale of these assets to its members. Fiberco had minimal activity during the years ended December 31, 2015 and 2014.

AIRE was established in July 2005 to create and operate services, projects, and programs for the higher education, research, and education community, which encourage the intra- and inter-institutional use of advanced Internet technology infrastructure. AIRE had minimal activity during the years ended December 31, 2015 and 2014.

Other activities that result in gains or losses unrelated to the primary mission of the Corporation are considered nonoperating. Nonoperating gains and losses include contributions, and investment income or losses.

Use of Estimates

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

Fund Accounting and Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to the Corporation, accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into the net asset categories of permanently restricted, temporarily restricted and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that require the Corporation maintain those assets permanently.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Corporation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Corporation.
- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

Cash

The Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents. Amounts whose use is limited by other arrangements are included in investments in the consolidated balance sheet and are excluded from cash in the consolidated statement of cash flows. Except for a single account holding $500,000, all cash is held at one financial institution and at times balances may exceed FDIC limits. At December 31, 2015, approximately $6,669,000 is held in a collateralized sweep account. At December 31, 2015 and 2014, the Corporation holds approximately $425,000 and $447,000, respectively, of cash that is restricted for certain uses.

Property and Equipment

Property and equipment are recorded at cost when purchased. Donated property is recorded at estimated fair value at the date of acquisition. Acquisitions of long-term dark fiber IRU’s are recorded as property and equipment at cost when purchased, provided the contracts convey substantially all rights and obligations commonly associated with ownership.

Depreciation is computed using the straight-line method over the estimated useful lives of property and equipment ranging from 2 to 25 years. In accordance with its policy, the Corporation reviews the estimated useful lives of its property and equipment on an ongoing basis. The cost and the related allowance for depreciation of property and equipment that is sold, retired, or otherwise disposed of are removed from the accounts and the resulting gain or loss is included in operating gains or losses.

Revenue Recognition and Deferred Revenue

Network Fees

Network fees consist of connection fees, participation fees, and revenues earned for constructing and maintaining networks for member organizations (member contract revenue). Connection and participation fees are recognized as revenue over the annual service period, commencing with the date of the connection.

Member contract revenue may include revenue related to the acquisition of equipment for members, installation services, the transfer of rights to dedicated capacity in the Corporation's long term dark fiber IRU's, and on-going operations and maintenance support. Equipment sales and installation services are recognized as revenue upon acceptance. Transfers of dedicated capacity in IRU's are recorded as revenue ratably over the life of the applicable contract. Operations and maintenance support is recognized ratably over the service period.

Network fees paid in advance are initially recorded as deferred revenue.

The Corporation collects and remits universal service fees and other telecommunications taxes and fees imposed by governmental authorities. The Corporation reports its revenues net of these taxes.

Member Dues

Membership dues, invoiced annually, are recognized over the respective membership period. Dues invoiced are initially recorded as deferred revenue and are recognized as revenue over the membership period.

Income From Grants

The Corporation receives income from government grants which fund current operations and significant capital expenditures. Grants funding current operations are recorded as revenue when earned in accordance with applicable contract provisions. Grants funding capital expenditures are recorded as revenue ratably over the life of the property and equipment purchased.

Other Revenue

Other revenue consists primarily of meeting fees and sales of services provided by third party vendors. Member meeting fees are recognized when earned.

The Corporation arranges for services from third parties under master contracts because it is able to meet various procurement requirements of members in the higher education community while significantly streamlining the overall procurement effort that would otherwise be expended. The Corporation analyzes these third party service arrangements to determine if the Corporation is acting as a principal to the arrangement or as an agent. When acting as a principal, the Corporation records the revenues and related cost of sales at the point which the revenue is earned and related obligations are incurred. When acting as an agent on behalf of its members, the Corporation recognizes revenues, if any, net of related costs. The following table summarizes the amounts included in other revenue as a result of the Corporation's net activity when acting as agent on behalf of its members.

	2015	2014
Inflows received while acting as agent	$ 31,271,000	$ 24,950,000
Outflows disbursed while acting as agent	28,833,000	22,721,000
Net revenue earned while acting as agent	2,438,000	2,229,000

Multi–Element Contracts
Revenue contracts may include a combination of the Corporation's various products and services. When this occurs, the Corporation allocates the total contract consideration based on the relative selling prices of the elements. The resulting revenue allocated to each element is recognized as described above.

Direct Cost of Revenues
The Corporation, from time to time, commits to certain expenditures with the expectation of generating sufficient revenues, derived from these expenditures, to recover these specific costs. The Corporation identifies this type of expense commitment as a "Direct Cost of Revenue" to avoid comingling these expenditures with routine program costs.

Deferred Revenue
The Organization nets outstanding accounts receivable billed in advance of services against the related deferred revenue. The amounts for this entry were approximately $6,375,000 and $5,965,000 for 2015 and 2014, respectively.

Accounts Receivable and Allowances
Accounts receivable are recorded at the invoiced amount. Accounts are considered past due when the contractual payment period lapses. Past due balances over 90 days are reviewed individually for collectability, and are included in the allowance for uncollectible accounts as circumstances require. In addition, the Corporation maintains an allowance for the remaining receivables by applying a percentage based on historical experience and existing economic conditions. Amounts are written off against the allowance when they have been determined to be uncollectible. Included in accounts receivable are amounts that have been earned but have not been invoiced totaling approximately $1,372,000 and $363,000 as of December 31, 2015 and 2014, respectively.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence of any donor-imposed restriction.

Gifts of long-lived assets or cash restricted for the acquisition of long-lived assets are recorded in accordance with conditions specified by the donor. Gifts received with conditions restricting the sale or disposition of the asset are recorded as contributions with temporary restrictions which expire ratably over the asset's useful life. Gifts of long-lived assets received without stipulations about how long the donated asset must be used are recorded as unrestricted contributions.

Functional Expenses
The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Certain costs have been allocated between program services and management and general expenses.

Lease Accounting
The Corporation leases office space in West Hartford, Connecticut, Washington D.C., Newport, Rhode Island, New York, New York, Emeryville, California, Denver, Colorado, Charlottesville, Virginia, Austin, Texas and Ann Arbor, Michigan. These agreements provide for scheduled increases in base rental amounts over the term of the lease. The Corporation recognizes rent expense on a straight line basis over the term of the rental agreement.

Income Taxes
The Corporation is incorporated under the laws of the District of Columbia as a not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation qualifies as a publicly supported organization under Section 509(a)(1).

FiberCo, InCommon, and AIRE are separately organized and operated Delaware limited liability companies and are considered disregarded entities for federal and state tax purposes. Therefore, FiberCo, InCommon, and AIRE are treated as divisions of the Corporation for federal tax purposes.

New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance which supersedes the revenue recognition requirements in *Accounting Standards Codification ("ASC") 605, Revenue Recognition*. The new revenue recognition standard requires entities to recognize revenue in a way that depicts 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. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018 and is to be applied using either a full retrospective approach or a modified retrospective approach. The Corporation is currently evaluating the effect that adopting this new accounting guidance will have on its financial position, results of operations, and financial statement disclosures.

In February 2016, the FASB issued guidance revising lease accounting. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. The FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The revised standard also impacts accounting for lessors, embedded leases and sale-leaseback transactions. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Corporation is currently evaluating the effect that adopting this new accounting guidance will have on its financial position, results of operations, and financial statement disclosures.

In April 2015, the FASB issued guidance on customer's accounting for fees paid in a cloud computing arrangement. This guidance requires the accounting for the cost of licenses to be recognized separately from the fees for computing services. The guidance is effective for annual periods beginning after December 15, 2015 and can be applied prospectively or retrospectively. The Corporation is currently evaluating the effect that adopting this new guidance will have on its financial position and results of operations.

2. Restatement

The Corporation identified certain errors in the 2014 financial statements. The Corporation assessed the materiality of these errors and concluded the errors were material to its previously issued consolidated financial statements. As a result, the Corporation has restated its January 1, 2014 net assets and the 2014 consolidated financial statements to reflect the correction of errors relating to the recognition of grant revenue and certain membership group revenue and costs. As a result of these corrections, the following adjustments have been made to the previously reported amounts.

1. The Corporation identified an understatement in previously reported revenue related to the improper timing of revenue recognition for grant funds, which should have been recognized over the life of the associated assets and related to the improper timing of revenue recognition for unrestricted contributions from third parties, which should have been recognized upon the commitment of the contribution.

2. The Corporation identified an overstatement in previously reported revenue and costs related to a certain membership group service for which the Corporation was acting in the role of an agent and should not have reported revenue and costs related to this service.

The following summarizes the impacts to the December 31, 2014 consolidated financial statements:

	As Previously Reported	Adjustments	As Restated
Net assets at beginning of year	$ 6,591,949	$ 1,951,025	$ 8,542,974
Consolidated statements of activities and changes in net assets			
Income from grants	$ 11,453,282	$ (2,567,646)	$ 8,885,636
Membership dues	10,348,752	(155,000)	10,193,752
Total revenue and other support	68,984,064	(2,722,646)	66,261,418
Member services expenses	6,563,326	(169,374)	6,393,952
Total expenses	58,220,912	(169,374)	58,051,538
Change in net assets	1,644,002	(2,553,272)	(909,270)
Consolidated statements of financial position			
Deferred revenue, current	$ 30,053,231	$ 439,364	$ 30,492,595
Deferred revenue-government grant, current	8,709,000	(2,566,858)	6,142,142
Deferred revenue-government grant, noncurrent	37,147,709	2,729,741	39,877,450
Net assets at end of year	8,235,951	(602,247)	7,633,704
Consolidated statements of cash flows			
Change in net assets	$ 1,644,002	$ (2,553,272)	$ (909,270)
Change in deferred revenue and contract advances	(7,033,073)	2,553,272	(4,479,801)
Net cash provided by operating activities and nonoperating gains and losses	2,041,739	-	2,041,739

Note 4 and Note 9 have also been restated.

3. Fair Value Measurements

The Corporation measures financial assets at fair value on a recurring basis. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The following three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

Level 1 Observable inputs such as quoted prices in active markets;

Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs for which there is little or no market data, which requires the Company to develop assumptions

The carrying values of cash equivalents, accounts receivable and accounts payable approximate their fair value because of the short-term maturity of these instruments as of December 31, 2015. There were no assets or liabilities classified in Level 3.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* Changes to the current GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Although the standard is not effective until 2019, there is a provision in the standard that is early adoptable. The provision permits the omission of fair value disclosures for financial instruments at amortized cost. The Corporation adopted this provision in 2015.

4. Income From Government Grants (Restated)

The Corporation received a governmental grant for the purchase and build out of a new network. The grant agreement provided that the federal government would provide cash of $62,540,000, subject to certain conditions, including the requirement for the Corporation to provide $34,250,000 in matching funds, for total project cost of $96,790,000. The Corporation records grant revenue from this grant ratably over the life of the fixed assets purchased. Any monies reimbursed during the year, but not recognized as income is recorded as deferred revenue.

For each of the years ended December 31, 2015 and 2014, the Corporation recognized approximately $6,142,000 and $6,142,000 (restated), respectively, in revenue relating to the government grant for the purchase and build out of the new network. Net of the revenue recognized, the Corporation has recorded approximately $39,877,000 and $46,019,000 (restated) as deferred revenue at December 31, 2015 and 2014, respectively.

The Corporation also receives grants and other contracts from various federal departments. Revenue from these grants is recorded when earned in accordance with applicable contract or grant provisions. Grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government.

5. Member Contracts

The Corporation has entered into certain contracts to build nationwide high performance dedicated networks for the exclusive use of the member agency procuring these services. These contracts include the acquisition of equipment, installation services, the transfer of rights to dedicated capacity in the Corporation's long term fiber IRU's, and on-going operations and maintenance support. The fiber assets and equipment acquired to construct these networks will remain the property of the Corporation. Upon the member agency's acceptance of the network, the Corporation recognized long term fiber assets and long term deferred revenues, which will be separately amortized into operations over the estimated life of the contract. The contracts provide the member agency the right to extend the contracts at certain anniversary dates that which, if executed, provide for a maximum contract terms of 8 to 20 years. The Corporation has made certain commitments for fiber monitoring and repair services more fully described in Note 13 and recorded the following in connection with these agreements.

	2015	2014
IRU, included in Property and Equipment	$ 23,560,244	$ 23,560,244
Deferred revenue	19,368,584	20,566,640
Contract advances	1,737,167	2,261,596

6. Net Property and Equipment

Property and equipment and the related accumulated depreciation and amortization are as follows:

	2015	2014
Network equipment	$ 143,358,372	$ 140,015,816
Software	474,632	435,242
Computer and video conference equipment	3,536,222	3,554,827
Furniture and fixtures	1,342,566	1,299,949
Office equipment	148,654	135,261
Leasehold improvements	753,494	705,619
	149,613,940	146,146,714
Less: Allowances for depreciation and amortization	62,768,173	50,212,428
	$ 86,845,767	$ 95,934,286

Network assets purchased through a government grant with a cost basis of approximately $58,457,000 as of December 31, 2015 are restricted from sale or disposal during the life of the equipment.

7. Related-Party Transactions

The Corporation enters into various employment service contracts with its member universities. Prepaid expense related to these contracts was approximately $184,000 and $86,000 as of December 31, 2015 and 2014, respectively. Accrued expenses and accounts payable related to these contracts were approximately $1,071,000 and $1,200,000 as of December 31, 2015 and 2014, respectively. Total expense associated with these contracts approximated $2,160,000 and $2,355,000 for the years ended December 31, 2015 and 2014, respectively.

8. Equipment Loan Facility

The Corporation has a loan arrangement with a bank which provides for a $5,000,000 equipment loan. The terms are described below.

The equipment loan facility provided the Corporation with total draws of $5,000,000. The outstanding draws were converted to a term loan in January 2014. Interest is calculated on the outstanding principal at a rate of 5.66%. The Corporation was obligated to pay monthly interest only payments until February 2014 when the Corporation began making monthly principal and interest payments of $96,054 with the final payment due in January 2019. The bank retains a right of setoff in all the Corporation's accounts with the bank, including checking, saving, accounts receivable and investment accounts. The facility is collateralized by substantially all assets excluding those encumbered by capital leases or governmental grants. Throughout the term of the agreement, the Corporation will be required to maintain minimum debt service coverage ratio of at least 1.2 measured on the previous four quarters activity. Outstanding principal drawn on this facility was $3,175,743 as of December 31, 2015. Scheduled principal maturities over the term of the facility are summarized as follows:

2016	$ 992,000
2017	1,050,531
2018	1,112,338
2019	20,874
2020	-
Thereafter	-

Interest expense for the years ended December 31, 2015 and 2014 was $215,616 and $336,904, respectively, and is included in management and general expenses.

9. Deferred Revenue

Deferred revenue consists of the following at December 31, 2015 and 2014:

	2015	2014 *(restated)*
Membership dues	$ 14,421,456	$ 11,091,490
Network fees	38,991,626	36,814,483
Participation fees	4,280,038	5,453,630
Other	62,325	612,434
	$ 57,755,444	$ 53,972,037
Current portion	$ 35,935,165	$ 30,492,595
Long term portion	21,820,279	23,479,442
	$ 57,755,444	$ 53,972,037

Deferred revenue – government grant consists of the following at December 31, 2015 and 2014:

	2015	2014 *(restated)*
Current portion	$ 6,142,142	$ 6,142,142
Long-term portion	33,735,308	39,877,450
	$ 39,877,450	$ 46,019,592

10. Capital Lease Obligation

The Corporation has approximately $7,160,000 of costs related to specified equipment under capital lease as of December 31, 2015, and has recorded accumulated depreciation of approximately $2,722,000 as of December 31, 2015.

Future minimum lease payments together with the present value of minimum lease payments under the capital leases are:

Years Ending December 31	
2016	$ 1,762,316
2017	1,762,316
2018	1,762,316
2019	6,818
2020	-
Total minimum lease payments	5,293,766
Less: Amounts representing interest	350,637
Present value of minimum lease payments	$ 4,943,129

Interest expense for the years ended December 31, 2015 and 2014 was $263,028 and $48,961, respectively, and is included in management and general expenses.

11. Employee Benefit Plan

The Corporation has a defined contribution benefit plan that operates under Section 403(b) of the Internal Revenue Code. The plan provides retirement benefits for participating employees. All permanent employees are eligible for the plan. The Corporation contributes 5% of the employees' compensation and matches the employees' contribution up to an additional 5% of the employees' compensation. Benefits are provided through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Total expense for the plans was approximately $1,255,000 and $904,000 for the years ended December 31, 2015 and 2014, respectively.

12. Expenses

The Corporation reports its operating expenses by functional classification within the Statement of Operations. The following schedule presents the Corporation's operating expenses by natural classification.

	2015	2014
Cost of sales, member contracts	$ 11,947,590	$ 8,528,237
Personnel	20,157,904	16,257,605
Meetings	1,991,456	1,678,681
Travel	1,961,142	1,751,535
Office	9,575,678	10,860,017
Network	21,115,030	14,745,101
Depreciation and amortization	13,002,654	12,758,499
	$ 79,751,454	$ 66,579,675

Research and development costs, which related primarily to software development, are expensed as incurred. These expenditures, which are included in network, middleware, and security program expenses, funded ongoing efforts toward technological developments which are essential to the deployment and enhanced operation of the Corporation's national fiber optic network serving the higher education community. Research and development expenses were approximately $2,804,000 and $2,193,000 for the years ended December 31, 2015 and 2014, respectively.

13. Commitments and Contingencies

On January 13, 2011, the Corporation entered into an agreement to acquire a dark fiber network which is funded substantially by government grants. The agreement creates a commitment to use the provider's monitoring and repair services for some portion of the network through January 2016. Following that date, the Corporation has various rights to terminate the obligations at anniversary dates through 2031. Actual services purchased throughout the contract period may vary as modifications to the network occur. The Corporation estimates current obligations under this contract will be approximately $2 million annually throughout the contract period, based on the network configuration.

On June 22, 2011 the Corporation entered into an agreement to acquire a dark fiber network in connection with activities to construct and maintain a network for a member organization. The dark fiber agreement creates a commitment to use the provider's monitoring and repair services for some portion of the network through June 2016. Following that date, the Corporation has various rights to terminate the obligations at anniversary dates through 2031. Actual services purchased throughout the contract period may vary as modifications to the network occur. The Corporation estimates current obligations under this contract will be approximately $1,350,000 annually throughout the contract period, based on the network configuration. All costs associated with this contract are passed on to the member organization.

The Corporation terminated a lease of its office facility in Ann Arbor, Michigan under a noncancelable operating lease that was scheduled to expire in 2018. A combined termination fee and real estate broker commission of $1,846,774 was incurred and a related loss on the disposal of leasehold improvements in the amount of $610,302 has been recorded as an operating expense in 2014. The Corporation moved its operations to another leased facility in Ann Arbor, Michigan which is scheduled to expire in 2020 (with an option to extend for two additional 5 year terms).

The Corporation leases an office facility in Washington D.C. under a noncancelable operating lease that expires in 2023. The Corporation leases an office facility in Emeryville, California under a noncancelable operating lease that expires in 2018. Office facilities in Denver, Colorado, West Hartford, Connecticut, New York, New York, Austin, Texas and Newport, Rhode Island and are leased under cancelable leases.

The minimum lease payments at December 31, 2015, by year and in the aggregate are as follows:

2016	$	1,105,282
2017		1,132,143
2018		933,248
2019		812,451
2020		647,005
Thereafter		1,123,026
	$	5,753,155

Rental expense, excluding lease termination fees, amounted to approximately $1,244,000 and $1,534,000 for the years ended December 31, 2015 and 2014, respectively.

During 2014 the Corporation pledged a security interest in a bank deposit account as collateral for a revolving credit agreement (credit card). The agreement requires a minimum balance of $500,000 be maintained in the deposit account. As of December 31, 2015, there were no amounts owed under the revolving credit agreement.

14. Subsequent Events

On March 31, 2016, the Corporation entered into a multi-year equipment credit agreement with the Bank of Ann Arbor and Huntington National Bank. The agreement will have a draw period of 36 months with maximum borrowings of $20,000,000. For the initial draw period, the instrument will carry variable interest rates. The banks will make interest rate swaps available for the Corporation to cap interest rate volatility during the draw period. At the end of 36 months, the principal drawn will be converted into a 5-year, fixed interest rate term loan. The Corporation will have the option of maintaining a variable interest rate loan, hedged through the use of interest rate swaps. The loan will carry decreasing prepayment penalties, due to the availability of interest rate swaps, with other financial covenants aligned with the existing term loan held by the Bank of Ann Arbor (See Note 8). The organization expects to draw approximately $4,000,000 in 2016.

The Corporation has evaluated subsequent events through March 31, 2016, the date the financial statements were available for issuance.

Supplemental Information

University Corporation for Advanced Internet Development
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Federal Program	CFDA	Direct	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster				
Department of Commerce National Institute of Standards and Technology				
Scalable Privacy: Deploying Infrastructure to Support Effective Privacy Management	11.609	$ 417,501	$ 417,501	$ 256,219
National Science Foundation				
Office of Cyberinfrastructure				
SDCI Security Improvement: Building from Bedrock: Infrastructure Improvements for Collaboration and Science (SDCI Security)	47.080	230,186	230,186	-
Framework Program for US-China Collaboration in Scientific Research and Educations (CANS 2012-14)	47.080	86,427	86,427	-
Computer and Information Science and Engineering Division of Advanced CyberInfrastructure Support of Campus CyberInfrastructure at Non-Research Intensive and EPSCoR Institutions	47.070	628,316	628,316	-
Workshop for CC-NIE Award Recipients	47.070	(659)	(659)	-
Total Research and Development Cluster		1,361,771	1,361,771	256,219
Total Federal Award Expenditures		$ 1,361,771	$ 1,361,771	$ 256,219

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of the University Corporation for Advanced Internet Development (the “Corporation”) under programs of the federal government for the year ended December 31, 2015. The information presented in the Schedule is presented using the accrual basis of accounting, which is in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only the federal award activity of the Corporation, it is not intended to and does not present the financial position, changes in net assets and cash flows of the Corporation. The Corporation applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all sub-awards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

Negative numbers in the Schedule represent adjustments to amounts reported in prior years in the normal course of business. CFDA numbers and pass-through numbers are provided when available.

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*

To the Board of Trustees of University Corporation for
Advanced Internet Development

We have audited, 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, the consolidated financial statements of University Corporation for Advanced Internet Development and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2016, which included an emphasis of matter related to the restatement of the financial statements as of and for the year ended December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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.

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2015-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's 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 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*.

University Corporation for Advanced Internet Development's Response to Findings

The Corporation's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Corporation'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.

PricewaterhouseCoopers LLP

March 31, 2016

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the OMB Uniform Guidance

To the Board of Trustees of University Corporation for
Advanced Internet Development

Report on Compliance for Each Major Federal Program

We have audited University Corporation for Advanced Internet Development's (the "Corporation") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2015. The Corporation'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 the Corporation'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 the Corporation'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 the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation 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, 2015.

Report on Internal Control Over Compliance

Management of the Corporation 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 the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the Corporation'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 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.

PricewaterhouseCoopers LLP

March 31, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	__X__ Yes	_____ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	__X__ None reported
• Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	__X__ None reported
Type of auditor's report issued on compliance for major 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 Programs

CFDA Number(s)	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No

Section II – Financial Statement Finding

Finding No. 2015 -001 – Recognition of Grant Revenue – Material Weakness

Condition
A material weakness over internal control was identified during the 2015 financial statement audit. During the preparation of the 2015 financial statements, management of the Corporation determined that it was not recognizing revenue during the proper period related to an equipment grant received initially in fiscal year 2010. First, unrestricted contributions received related to this project during the period 2011 to 2013 should have been recognized upon receipt of the unconditional commitment versus over the life of the related equipment which the contributions were provided to support. Second, the grant revenue should have been recognized over the life of the related assets in proportion to the share funded by the grant.

Criteria
IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance as there is no guidance in generally accepted accounting principles in the United States, and ASC 9*58-605, *Revenue Recognition.*

Cause
This finding was attributed to the misapplication of generally accepted accounting principles. The accounting for the transactions was not documented and a review of the calculations was not performed to ensure that the contributions and revenue were accounted for properly.

Effect
The net assets of the Corporation as of January 1, 2014 were understated by $2,413,762, income from grants was overstated in 2014 by $2,567,646 and net assets at December 31, 2014 were overstated by $162,883 and as such the Corporation has restated the 2014 financial statements. This financial accounting error did not impact compliance with the federal grant program provisions nor does it impact the current year or previous years' schedules of expenditures of federal awards.

Recommendation
The following actions are recommended:

- Management should document its conclusions regarding revenue recognition related to significant contracts so that the accounting can be consistently applied.
- Management should implement a review control over the revenue recognition related to significant contracts and contributions to ensure that revenue is properly recorded in the correct period.

View of Responsible Officials

Following this finding is management's response and corrective action plan.

Section III – Federal Award Findings and Questioned Costs

No findings to be reported.

University Corporation for Advanced Internet Development
Schedule of Status of Prior Year Findings and Questioned Costs
Year Ended December 31, 2015

No findings or questioned costs were noted in the prior year.