University Corporation for Advanced Internet Development

Consolidated Financial Statements
December 31, 2017 and 2016

Page(s)

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of University Corporation for Advanced Internet Development and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended.

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.

Auditors' 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. 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 Company'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 Company'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 financial position of University Corporation for Advanced Internet Development and its subsidiaries as of December 31, 2017 and 2016, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 29, 2018

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University Corporation for Advanced Internet Development
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 29,525,504	$ 27,020,953
Receivables		
Accounts receivable, less allowance for uncollectible accounts of $419,413 in 2017 and $226,482 in 2016	12,762,241	11,696,607
Grants	6,106	280,679
Other receivables	59,444	819,442
	12,827,791	12,796,728
Prepaid expenses and other assets	6,553,340	3,983,740
Total current assets	48,906,635	43,801,421
Property and equipment, net	70,466,083	81,034,751
Other long-term assets	218,306	283,233
Total assets	$ 119,591,024	$ 125,119,405
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 1,510,436	$ 5,737,457
Other accrued expenses	12,630,601	10,767,390
Accrued salaries, wages, and related amounts	2,399,363	1,903,835
Deferred revenue	34,493,928	33,127,417
Deferred revenue - government grant	6,160,812	6,141,361
Contract advances and agency transactions	705,859	1,217,577
Current portion, equipment loan	1,117,650	1,055,547
Current portion, capital lease obligation	1,719,817	1,644,342
Total current liabilities	60,738,466	61,594,926
Other liabilities		
Deferred revenue	16,839,620	19,144,139
Deferred revenue - government grant	21,625,321	27,593,947
Capital lease obligation	6,789	1,726,607
Equipment loan	-	1,117,650
Equipment line of credit	10,000,000	6,697,787
Interest rate swap	94,130	-
Other long-term liabilities	1,140,444	1,113,952
Total liabilities	110,444,770	118,989,008
Unrestricted net assets	9,146,254	6,130,397
Total liabilities and net assets	$ 119,591,024	$ 125,119,405

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, 2017 and 2016

	2017	2016
Revenue and other support		
Network fees	$ 44,100,180	$ 43,254,516
Member dues	13,011,721	12,222,305
Trust & Identity fees	6,063,265	5,071,037
Income from sponsored programs	6,615,098	6,956,615
Other revenue	8,277,123	7,640,001
Total revenue and other support	78,067,387	75,144,474
Direct costs of revenues	10,049,096	8,520,485
Expenses		
Program services		
Network	39,814,437	42,042,419
Member services	7,945,633	8,547,279
Trust & Identity	4,836,964	3,952,847
Other programs	7,008,036	7,564,459
	59,605,070	62,107,004
Management and general	6,061,797	5,798,223
Total expenses and direct costs of revenues	75,715,963	76,425,712
Gain on disposal of property and equipment	237	34,110
Gain (loss) from operating activities	2,351,661	(1,247,128)
Nonoperating gains (losses)		
Contributions	605,788	510,132
Investment income	58,408	64,911
Nonoperating gains	664,196	575,043
Increase (decrease) in net assets	3,015,857	(672,085)
Net assets		
Beginning of year	6,130,397	6,802,482
End of year	$ 9,146,254	$ 6,130,397

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, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Increase (decrease) in net assets	$ 3,015,857	$ (672,085)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	14,315,605	13,266,183
Provision for bad debts	576,507	97,540
Gain on disposal of property and equipment	(237)	(34,110)
Changes in operating assets and liabilities		
Accounts receivable	(1,642,140)	265,706
Grants and other receivables	1,034,571	(460,365)
Prepaid expenses and other assets	(2,491,105)	1,200,506
Accounts payable and accrued expenses	(2,448,903)	1,943,551
Accrued salaries, wages, and related amounts	495,528	436,592
Deferred revenue and contract advances	(7,398,901)	(12,145,620)
Other long-term liabilities	120,622	297,526
Net cash provided by operating activities	5,577,404	4,195,424
Cash flows from investing activities		
Purchases of property and equipment	(3,677,311)	(7,739,944)
Proceeds from sales of property and equipment	2,135	34,110
Net cash used in investing activities	(3,675,176)	(7,705,834)
Cash flows from financing activities		
Payments on equipment loan facility	(1,055,547)	(1,002,546)
Proceeds from equipment line of credit	3,302,213	6,697,787
Payments for loan origination fees	-	(131,707)
Payments on capital lease obligation	(1,644,343)	(1,572,180)
Net cash provided by financing activities	602,323	3,991,354
Increase in cash and cash equivalents	2,504,551	480,944
Cash and cash equivalents		
Beginning of year	27,020,953	26,540,009
End of year	$ 29,525,504	$ 27,020,953
Supplemental disclosures		
Cash paid for interest	$ 507,828	$ 445,625
Property additions included in accounts payable/accrued expenses	85,091	-

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 operates the nation's largest and fastest coast-to-coast research and education network. In addition to providing greater opportunities for advancing networking research, the 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), Advanced Infrastructure for Research and Education LLC (AIRE) and Digital Preservation Network, LLC (DPN). 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, 2017 and 2016.

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, 2017 and 2016.

DPN was established in January 2017 as a membership organization that operates a digital preservation system comprised of geographically separated repositories that are built upon different system architectures, in order to meet the challenges of long-term preservation of academic and cultural heritage digital assets.

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.

The Corporation currently has no restricted net assets.

Cash

The Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents. Except for a single account holding approximately $700,000, all cash is held at one financial institution and at times balances may exceed FDIC limits. At December 31, 2017, approximately $7,342,000 is held in a collateralized sweep account. All of the Corporation's cash is unrestricted.

Property and Equipment

Property and equipment are recorded at cost when purchased. Donated property is recorded at estimated fair value at the date of donation. Acquisitions of long-term dark fiber Indefeasible Right to Use agreements (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 as follows:

Network equipment and fiber IRUs	2 to 20 years
Computer and video conference equipment	2 to 5 years
Furniture and fixtures	5 to 10 years

Leasehold improvements are depreciated over the shorter of the term of the lease or 10 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.

Trust & Identity Fees

Trust & Identity fees consist of federation participation and registration fees as well as fees for other services. Fees are recognized as revenue over the service period. In addition, a limited portion of member fees collected are designated for a program designed to accelerate the advancement of Trust & Identity services. These revenues are recognized as program expenditures are incurred. In the 2016 financial statements, this revenue was included in Other Revenue. The presentation was changed in 2017 to separately state this revenue.

Income From Sponsored Programs

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, reimbursement revenue and agency fees for the sales of services provided by third party vendors. Member meeting fees are recognized when earned. Reimbursement revenue consists of direct cost reimbursement for such items as travel, consulting service and shared circuit services and is recognized in conjunction with the corresponding direct cost. In the 2016 financial statements, some reimbursement revenue was included in Network Fees. The presentation was changed in 2017 to align these revenues.

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.

	2017	2016
Inflows received while acting as agent	$ 53,030,000	$ 42,800,000
Outflows disbursed while acting as agent	48,775,000	39,666,000
Net revenue earned while acting as agent	$ 4,255,000	$ 3,134,000

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 routinely bills in advance of services being provided. Receipts on such advance billings are reported as deferred revenues until the services are earned. Unpaid outstanding invoices on advance billings are reported neither as accounts receivable nor deferred revenues. At December 31, 2017 and 2016, approximately $7,991,000 and $7,725,000 of advance billing accounts receivable were excluded from the balance sheet, respectively.

Accounts Receivable and Allowances

Accounts receivable are generally 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 $1,230,000 and $1,183,000 as of December 31, 2017 and 2016, 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.

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)*. The new 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.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. 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.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities, including revisions to the classification of net assets and expanded disclosure requirements concerning expenses and liquidity. The standard is effective for fiscal years beginning after December 15, 2017 with early adoption permissible.

The Corporation is evaluating the impact of each of these new standards on its consolidated financial statements.

2. 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, 2017. There were no assets or liabilities classified in Level 3.

3. Income From Government Grants

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 the years ended December 31, 2017 and 2016, the Corporation recognized approximately $6,141,000 and $6,142,000, 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 $27,786,000 and $33,735,000 as deferred revenue at December 31, 2017 and 2016, 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.

4. 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 12 and recorded the following in connection with these agreements.

	2017	2016
IRU, included in property and equipment	$ 23,560,244	$ 23,560,244
Deferred revenue	16,972,470	18,170,527
Contract advances	705,859	1,217,577

5. Net Property and Equipment

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

	2017	2016
Network equipment and fiber IRUs	$ 154,568,766	$ 151,111,606
Computer and video conference equipment	3,812,627	3,756,336
Furniture and fixtures	1,380,706	1,323,250
Leasehold improvements	893,538	800,093
	160,655,637	156,991,285
Less: Accumulated depreciation and amortization	90,189,554	75,956,534
	$ 70,466,083	$ 81,034,751

Network assets purchased through a government grant with a cost basis of approximately $58,457,000 as of December 31, 2017 are restricted from sale or disposal during the life of the equipment.

6. Related-Party Transactions

The Corporation enters into various service contracts with its member universities that include key operating agreements and staffing components. Prepaid expenses related to these contracts were approximately $3,000 and $90,000 as of December 31, 2017 and 2016, respectively. Accrued expenses and accounts payable related to these contracts were approximately $664,000 and $866,000 as of December 31, 2017 and 2016, respectively. Total expense associated with these contracts approximated $4,012,000 and $3,739,000 for the years ended December 31, 2017 and 2016, respectively.

7. Debt

Equipment Loan Facility
The Corporation has a loan arrangement with a bank which provides for a $5,000,000 equipment loan. 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 is obligated to pay 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 $1,117,650 as of December 31, 2017.

Scheduled principal maturities over the term of the facility are summarized as follows:

2018	$ 1,117,650

Draw Down Equipment Loan Facility
On March 31, 2016, the Corporation entered into a draw down loan facility agreement with a maximum draw amount of $20,000,000 and an advance period that expires three years from the agreement date on March 30, 2019. The facility is a syndicated agreement through the Bank of Ann Arbor (BOAA), serving as the banking agent supporting 30% of the facility, and The Huntington National Bank (HNB) supporting 70% of the facility. The outstanding principle will carry interest-only payments during the advance period, calculated on a variable rate basis, using the formula: then prevailing Eurodollar Rate plus 275 basis points. (At December 31, 2017 the rate was 4.0998%)

On March 31, 2019, the outstanding draw balance will convert into a five-year term loan agreement. Management will, at that time, have the option of selecting either a variable interest rate, calculated much as it was during the advance period, or at a fixed rate. Throughout the term of the agreement, the Corporation is required to maintain debt service coverage of 1.2 measured each quarter, a debt to equity ratio of less than .50% measured quarterly (excluding deferred revenue from the calculation of liabilities), and "Days Operations in Cash" of greater than 90 days, measured once a year at December 31st. All of the Corporation's assets, not already encumbered through government grant programs or previously placed debt instruments, serve as collateral.

As of December 31, 2017, the Corporation had drawn $10,000,000 on this facility.

On April 7, 2017 the Corporation entered into a $10,000,000 interest rate swap that will go into effect April 1, 2019 to help mitigate interest rate variability. The swap was placed at a base LIBOR rate that will be fixed at 2.62% plus the 2.75% factor for a fixed rate of 5.37% beginning April 1, 2019. This amount aligns with the underlying debt amortization. The interest rate swap is measured at fair value using Level 2 inputs. The fair value of the interest rate swap is estimated at the amount, inclusive of interest accrued, the Organization would receive or pay to terminate the swap. The change in the fair value of the swap of approximately $94,000 is included in Interest expense for the year ended December 31, 2017.

The Corporation incurred interest expense of $386,267 and $251,901 on the aforementioned loans for the years ended December 31, 2017 and 2016, respectively. The interest expense is included in management and general expenses.

8. Deferred Revenue

Deferred revenue consists of the following at December 31, 2017 and 2016:

	2017	2016
Membership dues	$ 7,629,038	$ 6,842,891
Network services	38,439,732	40,904,214
Trust & Identity	5,084,307	4,320,573
Other	180,471	203,878
	$ 51,333,548	$ 52,271,556
Current portion	$ 34,493,928	$ 33,127,417
Long term portion	16,839,620	19,144,139
	$ 51,333,548	$ 52,271,556

Deferred revenue – government grant consists of the following at December 31, 2017 and 2016:

	2017	2016
Current portion	$ 6,160,812	$ 6,141,361
Long-term portion	21,625,321	27,593,947
	$ 27,786,133	$ 33,735,308

9. Capital Lease Obligation

The Corporation has approximately $6,996,000 of costs related to specified equipment under capital lease as of December 31, 2017, and has recorded accumulated depreciation of approximately $4,654,000 as of December 31, 2017.

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

Years Ending December 31	
2018	$ 1,762,316
2019	6,817
Total minimum lease payments	1,769,133
Less: Amounts representing interest	42,527
Present value of minimum lease payments	$ 1,726,606

Interest expense for the years ended December 31, 2017 and 2016 was $117,974 and $190,136, respectively, and is included in management and general expenses.

10. 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 savings 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. Investment options are provided through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Total expense for the plan was approximately $1,334,000 and $1,407,000 for the years ended December 31, 2017 and 2016, respectively.

11. Expenses

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

	2017	**2016**
Cost of sales, member contracts	$ 10,049,096	$ 8,520,485
Personnel	20,024,408	21,185,183
Meetings	1,681,759	1,597,992
Travel	1,435,792	1,794,032
Office	8,910,361	8,778,486
Network	19,298,942	21,283,351
Depreciation and amortization	14,315,605	13,266,183
	$ 75,715,963	$ 76,425,712

Research and development costs, which related primarily to software development, are expensed as incurred. These expenditures, which are included in Network, Member services and Trust & Identity 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 $1,144,000 and $1,444,000 for the years ended December 31, 2017 and 2016, respectively.

12. Commitments and Contingencies

On January 13, 2011, the Corporation entered into an agreement to acquire a dark fiber network which was funded substantially by government grants. The agreement created a commitment to use the provider's monitoring and repair services for some portion of the network through January 2016. The Corporation currently 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 created a commitment to use the provider's monitoring and repair services for some portion of the network through June 2016. The Corporation currently 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 leases an office facility in Washington D.C. under a noncancelable operating lease that expires in 2023. The Corporation leases an office facility in Ann Arbor, Michigan under a noncancelable operating lease that expires in 2020. 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.

Future minimum lease payments at December 31, 2017, by year and in the aggregate are as follows:

2018	$ 1,325,044
2019	1,191,420
2020	1,220,148
2021	1,265,574
2022	1,021,176
Thereafter	722,142
	$ 6,745,504

Rent expense is recognized on a straight-line basis over the life of the lease. Rental expense amounted to approximately $1,521,000 and $1,428,000 for the years ended December 31, 2017 and 2016, respectively.

13. Subsequent Events

The Corporation has evaluated subsequent events through March 29, 2018, the date the financial statements were available for issuance.