University Corporation for Advanced Internet Development

Consolidated Financial Statements
December 31, 2018 and 2017

University Corporation for Advanced Internet Development
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December 31, 2018 and 2017

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 (the "Corporation"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 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 financial position of University Corporation for Advanced Internet Development and its subsidiaries as of December 31, 2018 and 2017, and the changes in their net assets and their 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 changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 26, 2019

University Corporation for Advanced Internet Development
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 14,128,800	$ 29,525,504
Receivables		
Accounts receivable, less allowance for uncollectible accounts of $334,709 in 2018 and $419,413 in 2017	11,519,409	12,762,241
Grants	22,018	6,106
Other receivables	127,113	59,444
	11,668,540	12,827,791
Investments, current	4,727,881	-
Prepaid expenses and other assets	5,835,441	6,553,340
Total current assets	36,360,662	48,906,635
Property and equipment, net	43,573,505	70,466,083
Investments, long-term	15,096,524	-
Other assets, long-term	146,911	218,306
Total assets	$ 95,177,602	$ 119,591,024
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 1,627,452	$ 1,510,436
Other accrued expenses	10,437,412	12,630,601
Accrued salaries, wages, and related amounts	1,695,558	2,399,363
Deferred revenue	31,508,547	34,493,928
Deferred revenue - government grant	5,917,666	6,160,812
Contract advances and agency transactions	208,295	705,859
Equipment line of credit	1,500,000	-
Other liabilities	20,717	2,837,467
Total current liabilities	52,915,647	60,738,466
Other liabilities		
Deferred revenue	131,912	17,042,745
Deferred revenue - government grant	15,707,654	21,625,321
Capital lease obligation	-	6,789
Equipment line of credit	8,500,000	10,000,000
Other liabilities, long term	929,728	1,031,449
Total liabilities	78,184,941	110,444,770
Net assets without donor restrictions	16,992,661	9,146,254
Total liabilities and net assets	$ 95,177,602	$ 119,591,024

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

University Corporation for Advanced Internet Development
Consolidated Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue and other support		
Network fees	$ 42,647,017	$ 44,100,180
Member dues	12,973,668	13,011,721
Trust & identity fees	7,095,617	6,063,265
Income from sponsored programs	6,313,563	6,615,098
Other revenue	10,008,018	8,277,123
Total revenue and other support	79,037,883	78,067,387
Direct costs of revenues	9,669,978	10,049,096
Expenses		
Program services		
Network	39,815,448	39,814,437
Member services	7,158,640	7,945,633
Trust & identity	5,154,503	4,836,964
Other programs	4,641,756	7,008,036
	56,770,347	59,605,070
Management and general	5,544,953	6,061,797
Total expenses and direct costs of revenues	71,985,278	75,715,963
Gain on disposal of property and equipment	44,471	237
Gain from operating activities	7,097,076	2,351,661
Nonoperating gains (losses)		
Contributions	424,457	605,788
Investment income	324,874	58,408
Nonoperating gains	749,331	664,196
Increase in net assets	7,846,407	3,015,857
Net assets		
Beginning of year	9,146,254	6,130,397
End of year	$ 16,992,661	$ 9,146,254

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 7,846,407	$ 3,015,857
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	13,571,733	14,315,605
Provision for bad debts	413,236	576,507
Gain on disposal of property and equipment	(44,471)	(237)
Unrealized gain on investments	(28,062)	-
Unrealized (gain) loss on interest rate swap	(50,538)	94,130
Changes in operating assets and liabilities		
Accounts receivable	829,597	(1,642,140)
Grants and other receivables	(83,582)	1,034,571
Prepaid expenses and other assets	772,831	(2,491,105)
Accounts payable and accrued expenses	(1,995,342)	(2,448,903)
Accrued salaries, wages, and related amounts	(703,805)	495,528
Deferred revenue and contract advances	(10,160,587)	(7,398,901)
Other long-term liabilities	(57,013)	26,492
Net cash provided by operating activities	10,310,404	5,577,404
Cash flows from investing activities		
Purchases of property and equipment	(3,150,406)	(3,677,311)
Purchases of investments	(20,544,605)	-
Proceeds from sale of investments	748,262	-
Proceeds from sales of property and equipment	57,351	2,135
Net cash used in investing activities	(22,889,398)	(3,675,176)
Cash flows from financing activities		
Payments on equipment loan facility	(1,116,406)	(1,055,547)
Proceeds from equipment line of credit	-	3,302,213
Payments on capital lease obligation	(1,701,304)	(1,644,343)
Net cash (used in) provided by financing activities	(2,817,710)	602,323
(Decrease) increase in cash and cash equivalents	(15,396,704)	2,504,551
Cash and cash equivalents		
Beginning of year	29,525,504	27,020,953
End of year	$ 14,128,800	$ 29,525,504
Supplemental disclosures		
Cash paid for interest	$ 531,087	$ 507,828
Property additions included in accounts payable/accrued expenses	4,261	85,091
Noncash IRU Transfer	16,394,003	-

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

1. Description of 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 but also includes other 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 Corporation provides the community-built and community-driven trust and identity infrastructure that supports faculty and staff, researchers and scholars, with access to services across the U.S. and globally. The goal is to ensure that members of the community have access to the right services, at the right time, with the right protections and privacy considerations, while supporting easy collaboration globally.

Management and general activities include the functions necessary to provide support for the Corporation's program activities. They include activities that provide governance (Board of Trustees), business management, financial recordkeeping, budgeting, legal services, human resource management, and similar functions that ensure an adequate working environment and an equitable employment program.

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, 2018 and 2017.

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, 2018 and 2017.

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.

2. Significant Accounting Policies

The Corporation prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. The significant accounting and reporting policies used by the Corporation are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Presentation
The Corporation prepares its financial statements using the accrual basis of accounting.

The Corporation maintains its accounts 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. Separate accounts are maintained for each fund.

During 2018 the Corporation adopted the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance impacting the Corporation include: liquidity disclosure and expenses being reported by both their natural and functional classification. The Corporation applied the changes retrospectively. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements. The adoption did not result in a change to net assets or changes in net assets.

Net Assets
For financial reporting purposes, the Corporation follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service in excess of related expenses associated with the core activities of the Corporation: Community Engagement, Network Services and Trust & Identity. In addition to these exchange transactions, changes in this category of net assets include investment returns and proceeds from the sale of assets. The Board has designated an amount equivalent to approximately 180 days of operating expenses as a reserve to be maintained by Corporation management. At December 31, 2018, the Corporation's net assets were at approximately 130 days.

- With Donor Restrictions—Net assets subject to donor-imposed restrictions, that will be met either by actions of the Corporation or the passage of time. The Corporation currently has no net assets with donor restrictions.

Operations

Operating results in the consolidated statement of activities reflect all transactions increasing or decreasing net assets without donor restrictions. Operating expenses are reported on the consolidated statement of activities on a functional basis and includes losses or gains on disposition of assets.

The Corporation's nonoperating activity within the consolidated statement of activities includes contributions, investment returns or losses.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Corporation's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Corporation's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Fair Value Measurements

The Corporation reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The primary uses of fair value measures in the Corporation's financial statements is for recurring measurement of short-term and long-term investments.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Due to their short maturity and variable market-based interest rates, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values as of December 31, 2018.

The Corporation adopted certain private company provisions of ASU 2016-01, Recognition and Measurement of Certain Financial Instruments, and accordingly, measures the value of its debt instruments at amortized cost.

Cash and Cash Equivalents
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 $190,000 all cash is held at one financial institution and at times balances may exceed FDIC limits. All of the Corporation's cash is unrestricted.

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 $1,174,000 and $1,230,000 as of December 31, 2018 and 2017, respectively.

Investments
Investments are recorded in the consolidated financial statements at estimated fair value and are considered available for sale. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

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.

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.

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.

	2018	2017
Inflows received while acting as agent	$ 49,209,000	$ 53,030,000
Outflows disbursed while acting as agent	45,831,000	48,775,000
Net revenue earned while acting as agent	$ 3,378,000	$ 4,255,000

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, 2018 and 2017, approximately $8,476,000 and $7,991,000 of advance billing accounts receivable and deferred revenue were excluded from the balance sheet, respectively.

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.

Contributions

Contributions received are recorded in the appropriate category of net assets in the period received.

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 with donor restrictions revenue. The restricted net assets resulting from these are released to without donor restrictions net assets when the donor imposed restrictions are fulfilled or as the assets are placed in service. Gifts of long-lived assets received without stipulations about how long the donated asset must be used are recorded as without donor restrictions revenue in the year received.

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)(2).

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. The Corporation is currently evaluating the impact of the adoption the consolidated financial statements.

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. The Corporation plans to adopt the new standard in fiscal 2019. The adoption of ASU 2016-02 will have a material impact on the Company's consolidated financial position, adding approximately $4.8M in Right of Use Assets and $5.3M in Lease Liabilities. There is no expected material impact on the results of operations.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which enhances the reporting model for financial instruments by addressing certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in this ASU include: requiring equity securities to be measured at fair value with changes in fair value recognized through the income statement; simplifying the impairment assessment of equity instruments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. This ASU will be effective in the year ending December 31, 2019. The Corporation is currently evaluating the impact of the adoption on the consolidated financial statements.

3. Liquidity and Availability

The Corporation strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures, in compliance with bank financing agreements. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Corporation’s financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position. Amounts not available include certain investments with redemption dates beyond one year. There were no net assets with donor restrictions at December 31, 2018.

	2018
Cash and cash equivalents	$ 14,128,800
Accounts receivable, net	11,668,540
Investments, current	4,727,881
Investments, long-term	15,096,524
Financial assets available to meet cash needs for general expenditures within one year	$ 45,621,745

4. Investments

Investments consist of the following at December 31, 2018:

	Fair Value
Investments, current	
Money market/mutual funds	$ 10,383,658
U.S. treasury obligations	2,238,464
U.S. federal agency bonds	1,494,695
Corporate bonds	994,722
Total current investments	15,111,539
Investments, long-term	
Certificate of deposit	996,995
U.S. treasury obligations	3,234,453
U.S. federal agency bonds	3,248,656
Corporate bonds	7,616,420
Total long-term investments	15,096,524
Total investments	$ 30,208,063

The Corporation has a Money Market savings account as well as two investment portfolios held at separate banks. The Money Market savings account is included in Cash and Cash Equivalents in the Consolidated Statement of Financial Position. The portfolios have staggered maturity dates to ensure that cash becomes available as needed to meet planned obligations without jeopardizing the portfolio returns. The only risks to returns and maintenance of principal, other than selling the bonds before maturity, is that the entity offering the financial instrument would fail and default on the payment. The Corporation's Investment Policy Statement recommends U.S. Treasury grade investments and excludes the purchase of equities, so the failure of the instruments is highly unlikely.

As discussed in the Fair Value Measurements note, the Corporation is required to disclose its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to the organization's valuation techniques. Cash equivalents are held in U.S. money market or mutual funds. Fixed Income Investments consist of directly held actively traded treasuries and corporate bonds.

The Corporation uses the following methods to determine the fair value of its investments:

Money market or mutual funds: Determined by published value at the end of the last trading day of the year.

U.S. government obligations, U.S government agency bonds, corporate bonds, certificates of deposit: Determined using contractual cash flows and the interest rate determined by the closing bid price on the last business day of the fiscal year if the same or an obligation with a similar maturity is actively traded.

The following table summarizes the levels in the fair value hierarchy of the organization's investments at December 31, 2018.

	Level 1	Level 2	Level 3	Total
Money market/mutual funds	$ 10,383,658	$ -	$ -	$ 10,383,658
U.S. treasury obligations	-	2,238,464	-	2,238,464
U.S. federal agency bonds	-	1,494,695	-	1,494,695
Corporate bonds	-	994,722	-	994,722
Total current investments	10,383,658	4,727,881	-	15,111,539
Investments, long-term				
Certificate of deposit	-	996,995	-	996,995
U.S. treasury obligations	-	3,234,453	-	3,234,453
U.S. federal agency bonds	-	3,248,656	-	3,248,656
Corporate bonds	-	7,616,420	-	7,616,420
Total long-term investments	-	15,096,524	-	15,096,524
Total investments	$ 10,383,658	$ 19,824,405	$ -	$ 30,208,063

5. 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, 2018 and 2017, the Corporation recognized approximately $6,115,000 and $6,141,000, 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 $21,625,000 and $27,786,000 as deferred revenue at December 31, 2018 and 2017, 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.

6. 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 were the property of the Corporation and the Corporation recognized long-term fiber assets and long-term deferred revenues, which were being amortized into operations over the estimated life of the contract. In April 2018, the fiber assets and equipment were assigned to the member agency. This resulted in a reduction in assets of approximately $17M and an equivalent reduction in deferred revenue.

	2018	2017
IRU, included in property and equipment	$ -	$ 23,560,244
Deferred revenue	-	16,972,470
Contract advances	208,295	705,859

7. Net Property and Equipment

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

	2018	2017
Network equipment	$ 133,119,610	$ 154,568,766
Computer and video conference equipment	2,924,814	3,812,627
Furniture and fixtures	1,323,354	1,380,706
Leasehold improvements	871,705	893,538
	138,239,483	160,655,637
Less: Accumulated depreciation and amortization	94,665,978	90,189,554
	$ 43,573,505	$ 70,466,083

Network assets purchased through a government grant with a cost basis of approximately $58,457,000 as of December 31, 2018 are restricted from sale or disposal during the life of the equipment.

8. 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 final payment of $1,244 is 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.

Equipment Line of Credit

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 as 67% of the sum of 30 day LIBOR plus 2.5%, 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 not aligned with cash 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, 2018, 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 $50,000 and $94,000 for the years ended December 31, 2018 and 2017, respectively, is included in Interest expense. The fair value of the swap is approximately $44,000 and $94,000 at December 31, 2018 and 2017, respectively.

The Corporation incurred interest expense of $538,932 and $386,267 on the aforementioned loans for the years ended December 31, 2018 and 2017, respectively. The interest expense is included in management and general expenses.

Draw Down Equipment Loan Facility Renewal

On March 21, 2019, the Corporation entered into a renewal of a draw down loan facility agreement with a maximum draw amount of $20,000,000 to go into effect on April 1, 2019 upon the expiration of the current equipment facility. There will be an advance period that expires three years from the agreement date on March 31, 2022. The facility is a syndicated agreement through the Bank of Ann Arbor (BOAA), serving as the banking agent supporting 60% of the facility, and The Huntington National Bank (HNB) supporting 40% of the facility. The outstanding principle will carry interest-only payments during the advance period, calculated on a variable rate basis, using the formula as defined in the agreement: then prevailing Eurodollar Rate plus 250 basis points. The Corporation may enter into additional swaps related to this new facility.

9. Deferred Revenue

Deferred revenue consists of the following at December 31, 2018 and 2017:

	2018	2017
Membership dues	$ 6,650,417	$ 7,629,038
Network services	19,855,558	38,439,732
Trust & identity	4,514,735	5,084,307
Other	619,749	383,596
	$ 31,640,459	$ 51,536,673
Current portion	$ 31,508,547	$ 34,493,928
Long term portion	131,912	17,042,745
	$ 31,640,459	$ 51,536,673

Deferred revenue – government grant consists of the following at December 31, 2018 and 2017:

	2018	2017
Current portion	$ 5,917,666	$ 6,160,812
Long term portion	15,707,654	21,625,321
	$ 21,625,320	$ 27,786,133

10. Capital Lease Obligation

The Corporation has approximately $7,016,000 of costs related to specified equipment under capital lease as of December 31, 2018, and has recorded accumulated depreciation of approximately $5,756,000 as of December 31, 2018.

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

Years Ending December 31	2018
2019	$ 13,660
2020	7,116
2021	5,651
2022	300
Total minimum lease payments	26,727
Less: Amounts representing interest	1,396
Present value of minimum lease payments	$ 25,331

Interest expense for the years ended December 31, 2018 and 2017 was $42,499 and $117,974, 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 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 $1,322,000 and $1,334,000 for the years ended December 31, 2018 and 2017, respectively.

12. Expenses

The Corporation reports its operating expenses by functional classification within the Statement of Activities. The following table displays all expenses related to the functional classification by natural classification.

For the year ended December 31, 2018, expenses consist of the following:

	Network	Member Services	Trust & Identity	Other Programs	Management & General	2018 Total
Personnel	$ 5,406,679	$ 3,351,493	$ 3,531,341	$ 2,452,482	$ 3,814,544	$ 18,556,539
Meetings	124,419	1,126,948	36,307	69,642	8,745	1,366,061
Travel	365,446	315,588	155,151	235,748	182,984	1,254,917
Office	952,401	2,307,790	2,305,537	1,833,705	1,414,347	8,813,780
Network	28,217,223	14,254	12,873	152,950	24,948	28,422,248
Depreciation & amortization	13,271,202	64,596	60,375	41,898	133,662	13,571,733
	$ 48,337,370	$ 7,180,669	$ 6,101,584	$ 4,786,425	$ 5,579,230	$ 71,985,278

For the year ended December 31, 2017, expenses consist of the following:

	Network	Member Services	Trust & Identity	Other Programs	Management & General	2017 Total
Personnel	$ 4,894,690	$ 3,587,179	$ 3,549,606	$ 4,858,254	$ 3,949,686	$ 20,839,415
Meetings	127,649	1,362,068	68,127	98,437	46,637	1,702,918
Travel	383,839	305,259	173,263	356,118	220,441	1,438,920
Office	1,185,942	2,634,098	1,960,996	1,609,426	1,896,882	9,287,344
Network	27,954,983	16,825	13,128	126,814	20,011	28,131,761
Depreciation & amortization	14,020,278	64,096	40,695	66,114	124,422	14,315,605
	$ 48,567,381	$ 7,969,525	$ 5,805,815	$ 7,115,163	$ 6,258,079	$ 75,715,963

Costs common to multiple functions have been allocated among the various functions benefited using an allocation based on employee personnel expense for each program and supporting activity.

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 $1,337,000 and $1,144,000 for the years ended December 31, 2018 and 2017, respectively.

13. 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 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.

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 2022. The Corporation leases an office facility in Denver, Colorado under a noncancelable operating lease that expires in 2021. The Corporation leases an office facility in West Hartford, Connecticut under a noncancelable operating lease that expires in 2021. Office facilities in Newport, Rhode Island and State College, Pennsylvania are leased under cancelable leases.

Future minimum lease payments at December 31, 2018, by year and in the aggregate are as follows:

2019	$ 1,377,194
2020	1,408,187
2021	1,403,444
2022	1,021,176
2023	722,142
Thereafter	-
	$ 5,932,143

Rent expense is recognized on a straight-line basis over the life of the lease. Rental expense amounted to approximately $1,356,000 and $1,521,000 for the years ended December 31, 2018 and 2017, respectively.

14. 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 $0 and $3,000 as of December 31, 2018 and 2017, respectively. Accrued expenses and accounts payable related to these contracts were approximately $616,000 and $664,000 as of December 31, 2018 and 2017, respectively. Total expense associated with these contracts approximated $3,626,000 and $4,012,000 for the years ended December 31, 2018 and 2017, respectively.

15. Subsequent Events

The Corporation has evaluated subsequent events through March 26, 2019, the date the financial statements were available for issuance, and has not identified any matters that would require additional disclosure or adjustment in the financial statements.