University Corporation for Advanced Internet Development

Consolidated Financial Statements
December 31, 2021 and 2020

University Corporation for Advanced Internet Development
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December 31, 2021 and 2020

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Report of Independent Auditors

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

Opinion

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, 2021 and 2020, and the related consolidated statements of activities and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation’s ability to continue as a going concern for a reasonable period of time.

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

PricewaterhouseCoopers LLP

April 20, 2022

University Corporation for Advanced Internet Development
Consolidated Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 29,707,092	$ 24,649,288
Receivables		
Accounts receivable, less allowance for uncollectible accounts of $363,599 in 2021 and $443,925 in 2020	10,988,060	11,392,529
Grants	730,394	348,290
Other receivables	92,987	135,894
	11,811,441	11,876,713
Investments, current	7,781,268	11,466,683
Prepaid expenses and other assets	3,358,052	3,668,800
Total current assets	52,657,853	51,661,484
Property and equipment, net	37,915,799	37,763,916
Right to Use Assets - Operating	592,449	1,211,778
Right to Use Assets - Financing	906	7,697
Investments, long-term	8,641,029	8,091,398
Other assets, long-term	783,667	147,151
Total assets	$ 100,591,703	$ 98,883,424
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 1,671,378	$ 3,057,796
Other accrued expenses	8,565,751	10,587,913
Accrued salaries, wages, and related amounts	2,406,185	2,256,988
Deferred revenue	28,958,855	25,879,062
Equipment term loan	3,360,756	2,000,000
Operating lease liability	476,568	738,979
Financing lease liability	1,138	7,665
Total current liabilities	45,440,631	44,528,403
Other liabilities		
Deferred revenue	376,662	-
Equipment term loan, long term	5,303,702	4,500,000
Financing lease liability	-	406
Operating lease liability	321,236	797,804
Other liabilities, long term	114,397	284,605
Total liabilities	51,556,628	50,111,218
Net Assets without donor restrictions	49,035,075	48,772,206
Total liabilities and net assets	$ 100,591,703	$ 98,883,424

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, 2021 and 2020

	2021	2020
Revenue and other support		
Network Service fees	$ 37,166,548	$ 38,877,516
Community Engagement (incl. Member Dues)	11,576,240	11,452,384
Trust & Identity fees	10,342,812	9,882,600
Income from Sponsored Programs	2,014,953	1,097,915
Other revenue	6,812,508	10,830,724
Total revenue and other support	67,913,061	72,141,139
Direct costs of revenues	10,120,074	9,969,242
Expenses		
Program Services	52,597,621	51,854,217
Management and General	4,955,080	4,791,150
Total expenses and direct costs of revenues	67,672,775	66,614,609
Gain (loss) on disposal of property and equipment	3,797	(4,525)
Gain from operating activities	244,083	5,522,005
Nonoperating gains (losses)		
Contributions	-	500,977
Investment income	18,786	500,795
Nonoperating gains	18,786	1,001,772
Increase in net assets, without donor restriction	262,869	6,523,777
Net assets, without donor restrictions		
Beginning of year	48,772,206	42,248,429
End of year	$ 49,035,075	$ 48,772,206

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, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Increase in net assets	$ 262,869	$ 6,523,777
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	8,853,922	9,902,995
Provision for bad debts	-	-
(Gain) loss on disposal of property and equipment	(3,797)	4,525
Unrealized loss on investments	391,469	64,386
Unrealized (gain) loss on interest rate swap	(170,209)	87,426
Changes in operating assets and liabilities		
Accounts receivable	404,469	(2,529,872)
Grants and other receivables	(339,197)	(179,287)
Prepaid expenses and other assets	773,233	(691,134)
Accounts payable and accrued expenses	(634,781)	(53,166)
Accrued salaries, wages, and related amounts	149,197	481,237
Deferred revenue and contract advances	3,456,455	(4,087,137)
Operating lease	(738,979)	(844,388)
Other long-term liabilities	-	(24,339)
Net cash provided by operating activities	12,404,651	8,655,023
Cash flows from investing activities		
Purchases of property and equipment	(5,317,699)	(9,993,213)
Purchases of investments	(10,038,537)	(12,190,410)
Proceeds from sale of investments	12,782,852	12,648,387
Proceeds from sales of property and equipment	4,175	1,140
Net cash used in investing activities	(2,569,209)	(9,534,096)
Cash flows from financing activities		
Payments on equipment loan facility	(4,770,532)	(2,000,000)
Finance lease payments	(7,106)	(8,164)
Net cash used in financing activities	(4,777,638)	(2,008,164)
Increase (decrease) in cash and cash equivalents	5,057,804	(2,887,237)
Cash and cash equivalents		
Beginning of year	24,649,288	27,536,525
End of year	$ 29,707,092	$ 24,649,288
Supplemental disclosures		
Cash paid for interest	274,806	509,834
Property additions included in accounts payable/accrued expenses	355,450	3,129,250
Property additions and prepaid maintenance financed	4,809,697	
Contributions of equipment	-	496,477

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), 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, 2021 and 2020.

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, 2021 and 2020.

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.

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, 2021, the Corporation's net assets were at approximately 370 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 other than contributions and investment returns or losses. 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, 2021.

Due to the Corporation's historical adoption of certain private entity provisions of ASU 2016-01, Recognition and Measurement of Certain Financial Instruments, the Corporation is not required to disclose fair value of its debt instruments as they are measured 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. 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 $2,053,000 and $2,096,000 as of December 31, 2021 and 2020, 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.

Leases

The Corporation recognizes a right of use asset and a lease liability for virtually all leases. Leases are categorized as either operating or finance. Refer to Note 5 for the details of the impact on the Corporation's consolidated financial position.

The Corporation leases certain office space and data center space. Under ASC 842, Leases, at contract inception the Corporation determines whether a contract is or contains a lease and whether the lease should be classified as an operating or finance lease. The Corporation recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Corporation uses its incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification. The Corporation defines the initial lease term to include renewal options determined to be reasonably certain. In the Corporation's adoption of ASC 842, the Corporation elected not to recognize a right-of-use asset and a lease liability for leases with an initial term of 12 months or less; the Corporation recognizes lease expense for these leases on a straight-line basis over the lease term. Some of the Corporation's office space leases require it to make variable payments for the Corporation's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred. The Corporation elected the practical expedient to not separate lease components from nonlease components and applied that practical expedient to all material classes of leased assets (for leases where these were not separately noted).

Many of the Corporation's real property lease agreements contain rent holidays or rent escalation clauses. The Corporation records rental expense on a straight-line basis over the term of the lease.

The Corporation is not a lessor in any material arrangements, nor does the Corporation have any material restrictions or covenants in the lease agreements.

Revenue Recognition and Deferred Revenue

Network Service Fees

Network Service 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 as the performance obligations are satisfied over time as control is transferred.

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 at a point in time 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 are recognized ratably over the service period as the performance obligation is satisfied over time as control is transferred.

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 fees and taxes.

Community Engagement

Community Engagement fees consist of membership dues, meeting fees and meeting sponsorship fees. Membership dues, invoiced annually, are initially recorded as deferred revenue and are recognized over the respective membership/service period as the performance obligation is satisfied over time as control is transferred. Meeting fees and meeting sponsorship fees are recognized at a point in time when the services have been transferred.

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 as the performance obligation is satisfied over time as control is transferred.

Income From Sponsored Programs

The Corporation receives income from government grants which fund current operations and significant capital expenditures. Revenue from government grant agreements, which are generally considered nonexchange transactions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. 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 reimbursement revenue and agency fees for the sales of services provided by third party vendors. 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.

	2021	2020
Inflows received while acting as agent	$ 39,666,000	$ 54,352,000
Outflows disbursed while acting as agent	38,067,000	51,882,000
Net revenue earned while acting as agent	$ 1,599,000	$ 2,470,000

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, 2021 and 2020, approximately $9,369,000 and $13,152,000 of advance billing accounts receivable and deferred revenue were excluded from the statement of financial position, respectively.

Multi–Element Contracts

For agreements with multiple performance obligations, judgment is required to determine whether performance obligations specified in these agreements are distinct and should be accounted for as separate revenue transactions for recognition purposes. In these types of agreements, the Corporation generally allocates sales price to each distinct obligation based on the price of each item sold in separate transactions. 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, 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.

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, 2021 and 2020, 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, 2021 and 2020.

	2021	2020
Cash and cash equivalents	$ 29,707,092	$ 24,649,288
Accounts receivable, net	11,811,441	11,876,713
Investments, current	7,781,268	11,466,683
Investments, long-term	8,641,029	8,091,398
Financial assets available to meet cash needs for general expenditures within one year	$ 57,940,830	$ 56,084,082

4. Cash Equivalents and Investments

Cash equivalents and Investments consist of the following at December 31, 2021 and 2020:

	Fair Value	
	2021	**2020**
Money market/mutual funds	$ 25,611,236	$ 20,785,211
Total cash equivalents	25,611,236	20,785,211
Investments, current		
Certificate of deposit	239,987	209,369
U.S. treasury obligations	997,968	1,769,647
U.S. federal agency bonds	499,515	501,859
Corporate bonds	6,043,798	8,985,808
Total current investments	7,781,268	11,466,683
Investments, long-term		
Certificate of deposit	-	240,367
U.S. treasury obligations	992,969	-
U.S. federal agency bonds	-	1,299,944
Corporate bonds	7,648,060	6,551,087
Total long-term investments	8,641,029	8,091,398
Total investments	16,422,297	19,558,081
Total cash equivalents & investments	$ 42,033,533	$ 40,343,292

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 investment 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, 2021.

	Level 1	Level 2	Level 3	Total
Money market/mutual funds	$ 25,611,236	$ -	$ -	$ 25,611,236
Total cash equivalents	25,611,236	-	-	25,611,236
Investments, current				
Certificate of deposit	-	239,987	-	239,987
U.S. treasury obligations	-	997,968	-	997,968
U.S. federal agency bonds	-	499,515	-	499,515
Corporate bonds	-	6,043,798	-	6,043,798
Total current investments	-	7,781,268	-	7,781,268
Investments, long-term				
U.S. treasury obligations	-	992,969	-	992,969
U.S. federal agency bonds	-	-	-	-
Corporate bonds	-	7,648,060	-	7,648,060
Total long-term investments	-	8,641,029	-	8,641,029
Total investments	-	16,422,297	-	16,422,297
Total cash equivalents and investments	$ 25,611,236	$ 16,422,297	$ -	$ 42,033,533

The following table summarizes the levels in the fair value hierarchy of the organization's investments at December 31, 2020.

	Level 1	Level 2	Level 3	Total
Money market/mutual funds	$ 20,785,211	$ -	$ -	$ 20,785,211
Total cash equivalents	20,785,211	-	-	20,785,211
Investments, current				
Certificate of deposit	-	209,369	-	209,369
U.S. treasury obligations	-	1,769,647	-	1,769,647
U.S. federal agency bonds	-	501,859	-	501,859
Corporate bonds	-	8,985,808	-	8,985,808
Total current investments	-	11,466,683	-	11,466,683
Investments, long-term				
Certificate of deposit	-	240,367	-	240,367
U.S. treasury obligations	-	-	-	-
U.S. federal agency bonds	-	1,299,944	-	1,299,944
Corporate bonds	-	6,551,087	-	6,551,087
Total long-term investments	-	8,091,398	-	8,091,398
Total investments	-	19,558,081	-	19,558,081
Total cash equivalents and investments	$ 20,785,211	$ 19,558,081	$ -	$ 40,343,292

5. Leases

The following table summarizes the leases of office facilities under a noncancelable operating lease. An office facility in Newport, Rhode Island is leased under a cancelable lease. The leases have remaining lease terms of up to two years, some of which include options to extend the leases for up to five years. The leases for two of the locations (Ann Arbor and West Hartford) expire in 2022. Finance leases are not material to the consolidated financial statements and are therefore not included in the following disclosures.

Office	Year Expiring	Total minimum Payments
Washington D.C.	2023	$ 711,041
Ann Arbor	2022	116,606
Denver	2021	81,968
West Hartford	2022	31,500
		$ 941,115

The following table summarizes the amounts included on the Statement of Financial Position at December 31:

	2021	2020
Right of Use Asset - Operating Leases	$ 592,449	$ 1,211,778
Operating Lease Liability Current	$ 476,568	$ 738,979
Operating Lease Liability Long Term	321,236	797,804
Total Operating Lease Liability	$ 797,804	$ 1,536,783
Right of Use Asset - Financing Leases	$ 906	$ 7,697
Financing Lease Liability Current	$ 1,135	$ 7,665
Financing Lease Liability Long Term	-	406
Total Financing Lease Liability	$ 1,135	$ 8,071

Total Lease Cost

Total lease cost is included in net expenses allocated across all programs and management and general in the consolidated statement of activities. Sublease income is included in revenues and other support in the consolidated statement of activities. The following table reflects total lease cost for the years ended December 31, 2021 and 2020:

	2021	2020
Lease Costs		
Operating lease cost	$ 673,641	$ 735,404
Variable lease cost	59,647	72,268
Short-term lease cost	77,590	38,541
Sublease income	(100,655)	(183,000)
Total lease cost	$ 710,223	$ 663,213
Other Supplemental Information		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 791,526	$ 932,460
Weighted average remaining lease term - operating leases	1.6 Years	2.3 Years
Weighted average discount rate - operating leases	4.3 %	4.5 %

The following table shows the maturities of lease liabilities at December 31, 2021:

Maturities of Lease Liabilities	
2022	$ 500,088
2023	327,558
Total lease payments	827,646
Less: Imputed interest	(29,843)
Present value of operating lease liabilities	$ 797,803

6. Property and Equipment, Net

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

	2021	2020
Network equipment	$ 143,342,848	$ 135,255,384
Computer and video conference equipment	2,630,631	2,524,767
Furniture and fixtures	1,222,603	1,221,260
Leasehold improvements	970,594	970,594
	148,166,676	139,972,005
Less: Accumulated depreciation and amortization	110,250,877	102,208,089
	$ 37,915,799	$ 37,763,916

Network assets purchased through a government grant with a cost basis of approximately $58,457,000 as of December 31, 2021 are restricted from sale or disposal during the life of the equipment estimated to be 11 remaining years.

7. Debt

Equipment Term Loan

On March 31, 2019, the outstanding line of credit draw balance of $10,000,000 converted into a five-year term loan with a variable interest rate, calculated as 67% of the sum of 30-day LIBOR plus 2.5%. The equipment term loan matures in 2024 and is payable in annual installments of $2,000,000 in 2022 and 2023 and $500,000 in 2024. Throughout the term of the agreement, the Corporation is required to maintain debt service coverage ratio of 1.2 measured each quarter, a debt-to-equity ratio of less than.50% measured quarterly (excluding deferred revenue), 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.

Financial Liability

On December 11, 2020, the Corporation entered into an agreement with a bank to fund the purchase of certain equipment and services related to the new network. Due to the nature of the agreement, it is recognized as a financial liability. The agreement requires remaining annual payments of $1,444,045, including interest, through 2024.

Required principal payments on the Equipment Term Loan and the financial liability are as follows:

Maturities of Debt	
2022	$ 3,360,756
2023	3,387,971
2024	1,915,731
2025	
Total debt payments	$ 8,664,458

On April 7, 2017, the Corporation entered into a $10,000,000 interest rate swap that went into effect April 1, 2019 to help mitigate interest rate variability on the Equipment Term Loan. The swap was placed at a base LIBOR rate that is fixed at 2.62% plus the 2.75% factor for a fixed rate of 5.37% beginning April 1, 2019 and expires on March 31, 2024. 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 $171,000 and ($88,000) for the years ended December 31, 2021 and 2020, respectively, is included in Interest expense. The fair value of the swap liability is approximately $114,000 and $285,000 at December 31, 2021 and 2020, respectively, and is included in Other liabilities, long-term in the consolidated statement of financial position.

The Corporation incurred interest expense of $298,428 and $278,455 on the aforementioned loans for the years ended December 31, 2021 and 2020, respectively. The interest expense is included in management and general expenses.

Draw Down Equipment Loan Facility
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 which went into effect on April 1, 2019 upon the expiration and conversion of the equipment term loan. There is 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, serving as the banking agent supporting 60% of the facility, and The Huntington National Bank 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. Also, the facility carries an Unused Commitment Fee equal to 0.10% per annum for the unused portion of the loan commitment. There are no amounts drawn on this facility as of December, 31 2021.

8. Revenue

The Corporation recognizes revenue ratably over the service period or at the point in time that the Corporation transfers control of services to customers. Revenue is measured as the amount of consideration the Corporation expects to receive in exchange for services. Taxes collected on behalf of governmental authorities are excluded from revenues. The Corporation's accounts receivable convert to cash on the average of 45 days and the Corporation applies the practical expedient within Topic 606 to conclude that no significant financing terms exist within the Corporation's contracts with customers.

Costs to obtain contracts, such as sales incentives, are expensed as incurred. The Corporation applies the practical expedient within Topic 606 to conclude that no amortization of these costs is required.

Nature of Services
Approximately 90% and 86% of the Corporation's revenue for the years ended December 31, 2021 and 2020, respectively, is recognized over time. Revenue from these services is initially reported as deferred revenue and then is recognized ratably over the term as the performance obligations are satisfied over time as control is transferred.

Approximately 10% and 14% of the Corporation's revenue for the years ended December 31, 2021 and 2020, respectively, is recognized at a point in time. Revenue from these services is recognized at the point in time when the services have been transferred.

Deferred Revenue
Deferred revenue liabilities consist of the following at December 31, 2021 and 2020:

	2021	2020
Network Service fees	$ 15,857,579	$ 13,910,006
Community Engagement fees	6,786,995	6,513,851
Trust & Identity fees	6,312,122	5,161,174
Other	378,821	294,031
	$ 29,335,517	$ 25,879,062
Current portion	$ 28,958,855	$ 25,879,062
Long term portion	376,662	-
	$ 29,335,517	$ 25,879,062

Disaggregated Revenues
The following table shows disaggregated revenues from contracts with customers for the year ended December 31, 2021:

	Over Time	Point in Time	2021 Total
Network Service fees	$ 37,166,548		$ 37,166,548
Community Engagement fees	11,383,400	192,840	11,576,240
Trust & Identity fees	9,835,819	506,993	10,342,812
Other	623,185	6,189,323	6,812,508
	$ 59,008,952	$ 6,889,156	$ 65,898,108

The following table shows disaggregrated revenues from contracts with customers for the year ended December 31, 2020:

	Over Time	Point in Time	2020 Total
Network Service fees	$ 38,877,516	$ -	$ 38,877,516
Community Engagement fees	11,418,115	34,269	11,452,384
Trust & Identity fees	9,561,768	320,832	9,882,600
Other	1,430,637	9,400,087	10,830,724
	$ 61,288,036	$ 9,755,188	$ 71,043,224

See Note 2, “Revenue Recognition and Deferred Revenue”, for additional information.

9. 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 $1,489,000 and $1,406,000 for the years ended December 31, 2021 and 2020, respectively.

10. 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, 2021, expenses consist of the following:

	Program Services	Management & General	2021 Total
Personnel	$ 17,235,204	$ 3,506,132	$ 20,741,336
Meetings	74,133	3,650	77,783
Travel	33,741	6,113	39,854
Office Support	10,554,858	1,348,365	11,903,223
Network	26,665,922	10,238	26,676,160
Depreciation & Amortization	8,153,837	80,582	8,234,419
	$ 62,717,695	$ 4,955,080	$ 67,672,775

For the year ended December 31, 2020, expenses consist of the following:

	Program Services	Management & General	2020 Total
Personnel	$ 15,722,774	$ 3,203,536	$ 18,926,310
Meetings	658,175	12,979	671,154
Travel	146,858	13,501	160,359
Office Support	8,375,137	1,471,784	9,846,921
Network	27,763,285	11,553	27,774,838
Depreciation & Amortization	9,157,231	77,796	9,235,027
	$ 61,823,460	$ 4,791,149	$ 66,614,609

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 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 $3,328,000 and $1,156,000 for the years ended December 31, 2021 and 2020, respectively. The 2020 research and development expenses are net of a revenue allocation which the Organization has discontinued.

11. 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.

12. 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 $25,000 as of December 31, 2021 and 2020, respectively. Accrued expenses and accounts payable related to these contracts were approximately $105,000 and $149,000 as of December 31, 2021 and 2020, respectively. Total expense associated with these contracts approximated $3,432,000 and $3,700,000 for the years ended December 31, 2021 and 2020, respectively.

13. Subsequent Events

The Corporation has evaluated subsequent events through April 20, 2022, 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.