
University Corporation for Advanced Internet Development d/b/a Internet2

Consolidated Financial Report
December 31, 2023

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-21

Independent Auditor's Report

To the Board of Trustees
University Corporation for Advanced Internet
Development d/b/a Internet2

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of University Corporation for Advanced Internet Development d/b/a Internet2 and its subsidiaries (the "Corporation"), which comprise the consolidated statement of financial position as of December 31, 2023 and 2022 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to 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, 2023 and 2022 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 consolidated 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 within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 audits conducted in accordance with GAAS and *Government Auditing Standards* 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 consolidated financial statements.

To the Board of Trustees
University Corporation for Advanced Internet
Development d/b/a Internet2

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2024 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Plante & Moreau, PLLC

April 2, 2024

University Corporation for Advanced Internet Development d/b/a Internet2

Consolidated Statement of Financial Position

	December 31, 2023 and 2022	
	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 57,014,596	\$ 35,332,801
Investments (Note 4)	12,637,871	16,774,716
Receivables:		
Accounts receivable - Net of allowance (Note 8)	4,892,804	8,296,402
Grants	319,543	253,403
Other receivables	210,610	108,841
Total receivables	5,422,957	8,658,646
Prepaid expenses and other assets	4,604,774	3,347,198
Total current assets	79,680,198	64,113,361
Other Assets - Long term	1,903,707	2,233,679
Property and Equipment - Net (Note 6)	12,664,060	16,141,847
Assets Held for Sale	108,688	162,006
Right-of-use Operating Lease Assets (Note 5)	2,967,332	3,385,517
Right-of-use Finance Lease Assets (Note 5)	53,922,207	56,776,628
Total assets	\$ 151,246,192	\$ 142,813,038
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 2,952,506	\$ 1,628,480
Accrued salaries, wages, and related amounts	2,546,399	2,280,670
Other accrued liabilities	1,592,009	3,148,148
Deferred revenue - Current portion (Note 8)	30,782,536	28,754,351
Equipment term loans - Current portion (Note 7)	1,915,731	3,387,971
Operating lease liability (Note 5)	313,934	239,037
Finance lease liability (Note 5)	1,325,895	1,295,814
Total current liabilities	41,429,010	40,734,471
Deferred Revenue - Long-term portion (Note 8)	1,183,436	1,282,265
Lease Liabilities - Operating - Long-term portion (Note 5)	2,556,574	2,773,483
Lease Liabilities - Finance - Long-term portion (Note 5)	37,169,357	38,494,954
Equipment Term Loans - Long-term portion (Note 7)	-	1,915,731
Total liabilities	82,338,377	85,200,904
Net Assets - Without donor restrictions	68,907,815	57,612,134
Total liabilities and net assets	\$ 151,246,192	\$ 142,813,038

University Corporation for Advanced Internet Development d/b/a Internet2

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Changes in Net Assets without Donor Restrictions		
Revenue and other support:		
Network service fees	\$ 41,259,707	\$ 39,452,917
Community engagement (including member dues)	12,451,476	12,077,879
Trust and identity fees	11,407,294	10,491,555
Income from sponsored programs	2,168,383	1,588,995
Other revenue	7,919,359	9,793,566
Gain on disposal of property and equipment	514,906	3,109,701
Total revenue and other support	75,721,125	76,514,613
Expenses:		
Program services	61,634,296	63,970,338
Management and general	4,497,473	3,892,458
Total expenses	66,131,769	67,862,796
Increase in Net Assets without Donor Restrictions - Before nonoperating income	9,589,356	8,651,817
Nonoperating Income - Investment gain (loss)	1,706,325	(74,758)
Increase in Net Assets without Donor Restrictions	11,295,681	8,577,059
Net Assets - Beginning of year	57,612,134	49,035,075
Net Assets - End of year	\$ 68,907,815	\$ 57,612,134

University Corporation for Advanced Internet Development d/b/a Internet2

Consolidated Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Increase in net assets	\$ 11,295,681	\$ 8,577,059
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	8,088,758	7,827,338
Provision for bad debt recoveries	(100,918)	(82,274)
Gain on disposal of property and equipment	(514,906)	(3,109,701)
Unrealized (gain) loss on investments	(200,240)	463,027
Unrealized gain on interest rate swap	-	(154,048)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	3,336,607	3,235,069
Prepaid expenses and other assets	(927,604)	(1,399,507)
Accounts payable	1,324,026	(42,898)
Accrued salaries, wages, and related amounts	265,729	(125,515)
Other accrued liabilities	(1,556,138)	(5,650,631)
Deferred revenue and contract advances	1,929,356	701,099
Operating lease	(239,750)	(490,711)
Net cash and cash equivalents provided by operating activities	22,700,601	9,748,307
Cash Flows from Investing Activities		
Build-out of operating lease	-	(448,639)
Purchases of property and equipment	(1,298,808)	(1,560,538)
Purchases of investments	(5,340,965)	(9,303,365)
Proceeds from sale of investments	9,678,051	8,487,919
Proceeds from sales of property and equipment	626,403	3,736,007
Net cash and cash equivalents provided by investing activities	3,664,681	911,384
Cash Flows from Financing Activities		
Payments on equipment loan facility	(3,387,971)	(3,360,756)
Finance lease payments	(1,295,516)	(1,673,226)
Net cash and cash equivalents used in financing activities	(4,683,487)	(5,033,982)
Net Increase in Cash and Cash Equivalents	21,681,795	5,625,709
Cash and Cash Equivalents - Beginning of year	35,332,801	29,707,092
Cash and Cash Equivalents - End of year	\$ 57,014,596	\$ 35,332,801
Supplemental Cash Flow Information		
Cash paid for interest	\$ 1,089,110	\$ 1,185,204
Noncash recognition of new leases	97,738	2,705,427

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 1 - Nature of Business

University Corporation for Advanced Internet Development d/b/a Internet2 (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 include 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.

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 nonprofit 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, 2023 and 2022.

AIRE was established in July 2005 to create and operate services, projects, and programs for the higher education, research, and education communities, which encourage the intra- and interinstitutional use of advanced internet technology infrastructure. AIRE had minimal activity during the years ended December 31, 2023 and 2022.

Note 2 - Significant Accounting Policies

Basis of Presentation

The Corporation prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and the provisions of 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.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue 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.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Classification of Net Assets

Net assets of the Corporation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Corporation. The board of trustees has designated an amount equivalent to approximately 180 days of operating expenses as a reserve to be maintained by corporation management. As of December 31, 2023 and 2022, the board-designated operating reserve is approximately \$28,800,000 and \$29,600,000, respectively. See Note 3 for additional disclosure.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. As of December 31, 2023 and 2022, the Corporation did not have any net assets with donor restrictions.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Operations

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

The Corporation's nonoperating activity within the consolidated statement of activities and changes in net assets includes unconditional contributions and investment returns.

Cash Equivalents

The Corporation considers all investments with an original maturity of three months or less when purchased to be cash equivalents. All cash is held at one financial institution, and at times balances may exceed FDIC limits.

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 consolidated statement of activities and changes in net assets. Realized gains and losses upon the sale of investments are calculated using the specific identification method and trade date.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Fair Value Measurements

The Corporation reports its investments at fair value measures 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 investments' 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 investments in active markets that the Corporation has the ability to access.

Level 2

Inputs to the valuation methodology include the following:

- Quoted prices for similar investments in active markets
- Quoted prices for identical or similar investments in inactive markets
- Inputs other than quoted prices that are observable for the investment
- Inputs that are derived principally from corroborated by observable market data by correlation or other means

If the investment 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 use of fair value measures in the Corporation's financial statements is for recurring measurement of 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.

Accounts Receivable and Allowance

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 collectibility and are included in the allowance for uncollectible accounts as circumstances require. In addition, an allowance for credit losses is established for amounts expected to be uncollectible over the contractual life of all receivables based on historical payment trends, write-off experience, and analyses of receivable portfolios by payor source and aging of receivables. The Corporation also considers the Corporation's environment, factors specific to the customers, and macroeconomic trends when making adjustments to the allowance for reasonable and supportable future forecasts. The allowance as of December 31, 2023 and 2022 was \$180,407 and \$281,325, respectively. 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 \$1,097,000 and \$3,104,000 as of December 31, 2023 and 2022, respectively.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Prepaid Expenses and Other Assets

For infeasible rights to use (IRU) licenses, the Corporation assesses whether there is an identifiable asset that can be controlled by the Corporation for which it obtains substantially all of the economic benefits from use of the asset. This usually requires the Corporation to license the use of specific fibers within the dark fiber cables. When this criterion is not met, the IRU licenses are treated as a service contract for the purpose of recognition within the consolidated financial statements. IRU licenses that meet the definition of a service contract are split between prepaid expenses and other assets and other noncurrent assets on the consolidated statement of financial position. The split between current and noncurrent assets is based on the lease term and amount expected to be utilized in the upcoming reporting period. When the criterion of control and economic benefit is met, IRU licenses are treated as leases within the consolidated financial statements.

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.

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.

Depreciation is computed using the straight-line method over the estimated useful lives of property and equipment as follows:

	Depreciable Life - Years
Computer and video conference equipment	2 to 5
Furniture and fixtures	5 to 10
Network equipment	5 to 10

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.

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 the commencement date. For office and data center space, the Corporation uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments and the appropriate lease classification. The Corporation elected to use the applicable risk-free interest rate, as allowed by practical expedient for nonpublic entities, for IRU licenses. 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 leases require it to make variable payments for the Corporation's proportionate share of the building's property taxes, insurance, common area maintenance, and colocation power. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

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 revenue 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 IRUs, and ongoing 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 IRUs 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 revenue 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 and Identity Fees

Trust and 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.

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.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

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 revenue and related cost of sales at the point at which the revenue is earned and related obligations are incurred. When acting as an agent on behalf of its members, the Corporation recognizes revenue, if any, net of related costs. Net revenue of approximately \$1,202,000 and \$1,164,000 has been recognized within other income on the consolidated statement of activities and changes in net assets related to inflows of approximately \$1,473,500 and \$3,872,000 and outflows of approximately \$271,000 and \$2,708,000 while acting as an agent for the years ended December 31, 2023 and 2022, respectively.

Deferred Revenue

The Corporation routinely bills in advance of services being provided. Receipts on such advance billings are reported as deferred revenue until the services are earned. Unpaid outstanding invoices on advance billings are not reported as either accounts receivable or deferred revenue. At December 31, 2023 and 2022, approximately \$10,742,000 and \$11,639,000, respectively, of advance billing accounts receivable and deferred revenue were excluded from the consolidated statement of financial position. See Note 8 for additional information.

Multielement 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 the sale 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 Revenue

The Corporation, from time to time, commits to certain expenditures with the expectation of generating sufficient revenue, derived from these expenditures, to recover these specific costs. These costs are incurred and the associated performance obligation in the identified contracts fulfilled on a monthly basis; therefore, there are no assets recognized for the costs to fulfill a contract with a customer. For the years ended December 31, 2023 and 2022, recognized direct costs of revenue were \$9,123,025 and \$8,869,628, respectively.

Contributions

The Corporation receives income from government grants, which fund current operations and significant capital expenditures and are recognized as income from sponsored programs on the consolidated statement of activities and changes in net assets. Revenue from government grant agreements, which are generally considered conditional contributions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. Awarded grant dollars to the Corporation for which barriers have not been met as of December 31, 2023 and 2022 are approximately, \$17,411,000 and \$16,038,000, respectively. Revenue on these grants will be recognized as eligible expenditures are incurred in future periods. Contributions received are recorded in the appropriate category of net assets in the period received.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of 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. See Note 10 for classification of expenditures by natural and functional presentation in addition to allocation methodologies used by the Corporation.

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 record keeping, budgeting, legal services, human resource management, and similar functions that ensure an adequate working environment and an equitable employment program.

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.

Adoption of New Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, specifically the Company's accounts receivable, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the previous practice where an allowance is not recognized until the losses are considered probable. The ASU has been adopted for the year ended December 31, 2023 and has been adopted using the modified retrospective transition method. There was no adjustment made to beginning of the year net assets at the time of adoption.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 2, 2024, which is the date the consolidated financial statements were available to be issued.

Note 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.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 3 - Liquidity and Availability (Continued)

The following table reflects the Corporation's financial assets as of December 31, 2023 and 2022 reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position. There were no net assets with donor restrictions at December 31, 2023 and 2022.

	2023	2022
Cash and cash equivalents	\$ 28,184,516	\$ 5,718,999
Accounts receivable - Net	5,422,957	8,658,646
Investments	12,637,871	16,774,716
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 46,245,344</u>	<u>\$ 31,152,361</u>

The board of trustees has established a designated operating reserve policy, which targets a minimum operating reserve of 180 days of daily cash expenses. As of December 31, 2023 and 2022, the board-designated operating reserve is approximately \$28,800,000 and \$29,600,000, respectively. This operating reserve has been excluded from cash and cash equivalents within the above assets available for settling general expenditures within one year of the consolidated financial statement reporting date. The operating reserve shall support the Corporation's day-to-day operations in the event of unforeseen shortfalls and to fund select projects that further the overall mission of the Corporation. The board of trustees, at any time, can remove or alter the designation terms.

Note 4 - Cash Equivalents and Investments

Cash equivalents and investments consist of the following at December 31, 2023 and 2022:

	2023	2022
Cash equivalents - Money market	\$ 46,568,207	\$ 31,995,522
Investments:		
U.S. Treasury obligations	2,571,162	5,554,535
U.S. federal agency bonds	7,038,682	2,989,806
Corporate bonds	3,028,027	8,230,375
Total investments	<u>12,637,871</u>	<u>16,774,716</u>
Total cash equivalents and investments	<u>\$ 59,206,078</u>	<u>\$ 48,770,238</u>

The Corporation has a money market savings account and one investment portfolio. The money market savings account is included in cash and cash equivalents in the consolidated statement of financial position. The investment portfolio has staggered maturity dates to ensure that cash becomes available as needed to meet planned obligations without jeopardizing the portfolio returns. The only risk 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 an 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.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 4 - Cash Equivalents and Investments (Continued)

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

U.S. Treasury obligations, U.S. federal agency bonds, and corporate bonds: 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 tables summarize the levels in the fair value hierarchy of the Corporation's investments at December 31, 2023 and 2022:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2023				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2023
Investments:				
U.S. Treasury obligations	\$ -	\$ 2,571,162	\$ -	\$ 2,571,162
U.S. federal agency bonds	-	7,038,682	-	7,038,682
Corporate bonds	-	3,028,027	-	3,028,027
Total investments	<u>\$ -</u>	<u>\$ 12,637,871</u>	<u>\$ -</u>	<u>\$ 12,637,871</u>
Assets Measured at Fair Value on a Recurring Basis at December 31, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Investments:				
U.S. Treasury obligations	\$ -	\$ 5,554,535	\$ -	\$ 5,554,535
U.S. federal agency bonds	-	2,989,806	-	2,989,806
Corporate bonds	-	8,230,375	-	8,230,375
Total investments	<u>\$ -</u>	<u>\$ 16,774,716</u>	<u>\$ -</u>	<u>\$ 16,774,716</u>

Note 5 - Leases

Operating Leases

The Corporation is obligated under operating leases primarily for office space, expiring at various dates through January 2030. One office lease has renewal options of two additional three-year terms that must be executed with the lessor six months before expiration of the current term. This would extend office space expiration dates through January 2036, if extended. The Corporation has not included these extension terms within the current lease term, as management does not feel they will know whether they will execute the extension at the lease commencement date given the current lease environment. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 5.27 percent to 8.08 percent. Some of the Corporation's office space leases require it to pay taxes, insurance, utilities, and common area maintenance costs. These are deemed variable or nonlease components and have not been included within the calculation of the right-of-use asset and related lease liability.

The Corporation made a policy election not to separate lease and nonlease components for office space. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability for office space leases expiring through January 2030.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5 - Leases (Continued)

The Corporation has operating leases for property space with a lease term of one year or less that the Corporation elected to account for as short-term leases. As these leases are short-term leases, they are excluded from the right-of-use asset and lease liability. Total expense related to short-term leases was \$56,306 and \$304,706 for December 31, 2023 and 2022, respectively.

The Corporation also leases colocation space through third-party vendors, which is used to develop and maintain the Corporation's network. Agreements for which the Corporation can cancel within specified notice periods without penalty have not been included on the consolidated statement of financial position. Costs associated with these leases are included within short-term lease cost below.

Finance Leases

The Corporation leases a dark fiber network through obtaining IRU licenses under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments for the design, planning, and engineering and IRU fees are due upfront when the Corporation accepts the performance of the underlying fiber segment. Remaining recurring payments related to colocation space and fixed property tax payments are \$182,979 and are due monthly through November 2032. Under current lease terms, there are two additional extension term options, for periods of five years each, upon payment to the lessor of a charge equal to 5 and 10 percent, per the respective contract, of the per fiber mile combined with design, planning, and engineering and IRU fees originally paid for each segment. The Corporation is reasonably likely to execute both extension options; therefore, these extension periods have been included within the calculation of the lease term and lease payments of the lease. Annually, the Corporation shall have the right, upon 60 days' notice to the lessor, to terminate up to 25 percent of the existing running line facilities, which house the colocation space and power to operate the dark fiber network. The Corporation can also terminate applicable IRU agreements on every 5th anniversary up through the 25th year of the effective date of the agreement. The Corporation has not included a termination year in the calculation of the right-of-use asset and lease obligation, as there is no indication the Corporation will exercise the options. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 2.29 to 2.70 percent, which represent the risk-free rate at the most recent lease measurement date elected through practical expedient for IRU licenses. The Corporation is required to pay colocation power charges and scheduled and unscheduled maintenance charges. These are deemed variable or nonlease components and have not been included within the calculation of the right-of-use asset and related lease liability.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5 - Leases (Continued)

Expenses recognized under these leases for the years ended December 31, 2023 and 2022 consist of the following:

	2023	2022
Finance lease cost:		
Amortization of right-of-use assets	\$ 2,854,421	\$ 2,855,328
Interest on lease liabilities	900,232	932,916
Operating lease cost	635,792	421,066
Short-term lease cost	1,414,515	2,273,046
Variable lease cost	504,333	610,826
Sublease income	(89,940)	(64,020)
Total lease cost	<u>\$ 6,219,353</u>	<u>\$ 7,029,162</u>
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 900,232	\$ 932,916
Operating cash flows from operating leases	425,845	521,818
Financing cash flows from finance leases	1,295,516	1,673,226
Right-of-use assets obtained in exchange for new operating lease liabilities	97,738	2,705,427
Weighted-average remaining lease term - Finance leases	18.9 years	20 years
Weighted-average remaining lease term - Operating leases	5.5 years	6.5 years
Weighted-average discount rate - Finance leases	2.3 %	2.3 %
Weighted-average discount rate - Operating leases	6.7 %	6.6 %

Included in lease expense are variable lease payments totaling \$504,333 and \$610,826 for the years ended December 31, 2023 and 2022, respectively. Of the total variable lease payments, \$504,333 and \$560,850 is dependent on actual charges for colocation power supplied by the lessor to running line facilities as part of the IRU license and \$0 and \$49,976 is dependent on actual property tax, insurance, and common area maintenance billed by the lessor to the Corporation as of December 31, 2023 and 2022, respectively.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 5 - Leases (Continued)

The future minimum lease payments under operating and finance leases are as follows:

Years Ending December 31	Operating Leases	Finance Leases	Total Payments
2024	\$ 499,219	\$ 2,195,745	\$ 2,694,964
2025	627,450	2,195,748	2,823,198
2026	610,007	2,195,748	2,805,755
2027	647,049	2,195,748	2,842,797
2028	661,816	2,195,748	2,857,564
Thereafter	445,564	36,816,888	37,262,452
Total	3,491,105	47,795,625	51,286,730
Less amount representing interest	620,597	9,300,373	9,920,970
Present value of net minimum lease payments	2,870,508	38,495,252	41,365,760
Less current obligations	313,934	1,325,895	1,639,829
Long-term obligations under leases	<u>\$ 2,556,574</u>	<u>\$ 37,169,357</u>	<u>\$ 39,725,931</u>

Note 6 - Property and Equipment

Property and equipment as of December 31, 2023 and 2022 are summarized as follows:

Network equipment	\$ 66,494,365	\$ 67,574,968
Computer and video conference equipment	2,462,838	2,328,070
Furniture and fixtures	563,742	564,955
Leasehold improvements	779,990	779,990
Work in progress	310,429	211,332
Total cost	70,611,364	71,459,315
Accumulated depreciation	57,947,304	55,317,468
Net property and equipment	<u>\$ 12,664,060</u>	<u>\$ 16,141,847</u>

Depreciation expense relating to property and equipment was \$4,718,414 and \$4,558,879 for the years ended December 31, 2023 and 2022, respectively.

At December 31, 2022 and 2023, network assets purchased through a government grant with a cost basis of approximately \$5,913,000 were restricted from sale or disposal during the life of the equipment. These assets are estimated to be fully depreciated as of December 31, 2023.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 7 - Long-term 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 percent of the sum of the 30-day LIBOR plus 2.5 percent (effective rate of approximately 8.0 and 7.0 percent as of December 31, 2023 and 2022, respectively). The equipment term loan matures in 2024 and is payable in annual installments of \$500,000. 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-asset ratio of less than 50 percent measured quarterly (excluding deferred revenue), and days operations in cash of greater than 90 days, measured once a year at December 31. 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 implicit interest of 2 percent, through 2024.

Required principal payments on the equipment term loan and the financial liability are as follows:

Year Ending	Amount
2024	\$ 1,915,731

On April 7, 2017, the Corporation entered into a \$10,000,000 interest rate swap that went into effect on April 1, 2019 to help mitigate interest rate variability on the equipment term loan. The swap was placed at a LIBOR-based rate that is fixed at 2.62 percent plus the 2.75 percent factor, for a fixed rate of 5.37 percent beginning on April 1, 2019 and expiring 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 Corporation would receive or pay to terminate the swap. The change in the fair value of the swap of approximately \$71,000 for the year ended December 31, 2022 is included in interest expense. The fair value of the swap asset was approximately \$40,000 at December 31, 2022 and is included in other assets - long term in the consolidated statement of financial position. The Corporation terminated the swap agreement in May 2023.

The Corporation incurred interest expense of \$188,878 and \$252,288 on the aforementioned loans for the years ended December 31, 2023 and 2022, 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 was an advance period that expired 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 percent of the facility, and The Huntington National Bank supporting 40 percent of the facility. The outstanding principal will carry interest-only payments during the advance period, calculated on a variable-rate basis, using the formula defined in the agreement, then the prevailing eurodollar rate plus 250 basis points. Also, the facility carries an unused commitment fee equal to 0.10 percent per annum for the unused portion of the loan commitment. No amounts were drawn on this facility, and the facility has since expired with the close of the advance period.

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 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 revenue. The Corporation's accounts receivable convert to cash on the average of 50 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. Accounts receivable related to contracts with customers were \$4,892,804, \$8,296,402, and \$10,988,060 as of December 31, 2023; December 31, 2022; and January 1, 2022, respectively.

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 87 and 85 percent of the Corporation's revenue for the years ended December 31, 2023 and 2022, 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 13 and 15 percent of the Corporation's revenue for the years ended December 31, 2023 and 2022, 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:

	2023	2022
Network service fees	\$ 17,685,131	\$ 17,208,427
Community engagement fees	7,503,198	6,390,349
Trust and identity fees	6,352,077	6,075,169
Other	425,566	362,671
Total deferred revenue	<u>\$ 31,965,972</u>	<u>\$ 30,036,616</u>
Current portion	\$ 30,782,536	\$ 28,754,351
Long-term portion	1,183,436	1,282,265
Total deferred revenue	<u>\$ 31,965,972</u>	<u>\$ 30,036,616</u>

Disaggregated Revenue

The following tables show disaggregated revenue from contracts with customers for the years ended December 31, 2023 and 2022, respectively:

	2023		
	Over Time	Point in Time	Total
Network service fees	\$ 41,259,707	\$ -	\$ 41,259,707
Community engagement fees	11,910,294	541,182	12,451,476
Trust and identity fees	10,140,138	1,267,157	11,407,295
Other	89,940	7,829,419	7,919,359
Total	<u>\$ 63,400,079</u>	<u>\$ 9,637,758</u>	<u>\$ 73,037,837</u>

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 8 - Revenue (Continued)

	2022		
	Over Time	Point in Time	Total
Network service fees	\$ 39,452,917	\$ -	\$ 39,452,917
Community engagement fees	11,489,163	588,716	12,077,879
Trust and identity fees	9,925,550	566,005	10,491,555
Other	387,338	9,406,228	9,793,566
Total	<u>\$ 61,254,968</u>	<u>\$ 10,560,949</u>	<u>\$ 71,815,917</u>

See the *Revenue Recognition and Deferred Revenue* section in Note 2 for additional information.

Note 9 - Retirement Plans

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 percent of the employees' compensation and matches the employees' contribution up to an additional 5 percent 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 \$1,650,000, and \$1,532,000 for the years ended December 31, 2023 and 2022, respectively.

Note 10 - Functional Expenses

The Corporation reports its operating expenses by functional classification within the consolidated statement of activities and changes in net assets. The following tables display all expenses related to the functional classification by natural classification.

For the year ended December 31, 2023, expenses consist of the following:

	Program	Management and General	Total
Personnel	\$ 20,575,084	\$ 3,132,921	\$ 23,708,005
Meetings	1,967,967	100,983	2,068,950
Travel	1,144,391	163,540	1,307,931
Office	2,604,815	301,778	2,906,593
Professional services	6,263,965	553,444	6,817,409
Technology and equipment	1,580,634	142,042	1,722,676
Network	19,505,357	6,090	19,511,447
Depreciation and amortization	7,992,083	96,675	8,088,758
Total	<u>\$ 61,634,296</u>	<u>\$ 4,497,473</u>	<u>\$ 66,131,769</u>

For the year ended December 31, 2022, expenses consist of the following:

University Corporation for Advanced Internet Development d/b/a Internet2

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Note 10 - Functional Expenses (Continued)

	Program	Management and General	Total
Personnel	\$ 19,311,100	\$ 2,745,416	\$ 22,056,516
Meetings	1,193,663	13,244	1,206,907
Travel	679,921	54,059	733,980
Office	5,799,410	251,282	6,050,692
Professional services	6,554,122	703,216	7,257,338
Technology and equipment	1,571,269	76,052	1,647,321
Network	21,076,852	5,852	21,082,704
Depreciation and amortization	7,784,001	43,337	7,827,338
Total	<u>\$ 63,970,338</u>	<u>\$ 3,892,458</u>	<u>\$ 67,862,796</u>

Expenses are allocated based on FTEs, specifically, the hours worked. Employees are assigned to a home department, but the hours worked (and related salary amounts) are assigned to specific departments that are categorized as either program, management and general, or allocated. Those hours worked are used to determine the percentage used to allocate the expenses that are used for both program and management.

Note 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, representing colocation power and maintenance charges associated with the IRU license disclosed in Note 5, will be approximately \$2,000,000 annually throughout the contract period based on the network configuration.

Note 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 \$4,000 as of December 31, 2023 and 2022. Accrued expenses and accounts payable related to these contracts were approximately \$12,000 and \$78,000 as of December 31, 2023, and 2022, respectively. Total expense associated with these contracts approximated \$2,033,000 and \$3,350,000 for the year ended December 31, 2023, and 2022, respectively.