Steadman Philippon Research Institute

Consolidated Financial Report
December 31, 2021

Contents

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Independent Auditor's Report

To the Board of Directors
Steadman Philippon Research Institute

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Steadman Philippon Research Institute (the "Institute"), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020 and the related consolidated statements of activities and changes in net assets, functional expenses, 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 Institute as of December 31, 2021 and 2020 and the changes in its net assets, functional expenses, and 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 Institute 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 Institute'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 Directors
Steadman Philippon Research Institute

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 Institute'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 Institute'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 June 24, 2022 on our consideration of the Institute'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 Institute'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 Institute's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 24, 2022

Consolidated Statement of Financial Position

December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	$ 4,300,845	$ 3,877,995
Accounts receivable	432,183	323,636
Other receivables	795,092	-
Accounts receivable - Related party	-	83,517
Contributions receivable - Current portion	1,000,000	1,000,000
Prepaid expenses and other assets	89,958	156,465
Investments	617,592	265,021
Total current assets	7,235,670	5,706,634
Net Contributions Receivable - Less current portion	2,858,789	3,766,510
Deferred Tax Asset	136,693	136,693
Property and Equipment - Net	1,337,069	1,792,435
Investments - Other	227,050	227,050
Amounts Held at Vail Health Foundation	3,469,500	2,287,268
Total noncurrent assets	8,029,101	8,209,956
Total assets	**$ 15,264,771**	**$ 13,916,590**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 536,039	$ 378,042
Accounts payable - Related parties	47,851	-
Accrued payroll-related expenses	887,640	973,765
Current portion of note payable	-	63,283
Total liabilities	1,471,530	1,415,090
Net Assets		
Without donor restrictions	3,842,314	2,639,242
With donor restrictions	9,950,927	9,862,258
Total net assets	13,793,241	12,501,500
Total liabilities and net assets	**$ 15,264,771**	**$ 13,916,590**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Grants and corporate partners	$ 4,867,651	$ -	$ 4,867,651	$ 4,331,105	$ 476,984	$ 4,808,089
Contributions	3,154,107	1,847,505	5,001,612	1,694,690	3,713,089	5,407,779
Government grants	3,403,235	-	3,403,235	2,146,936	-	2,146,936
Government contracts	1,500,000	-	1,500,000	1,291,668	-	1,291,668
Fundraising events	403,101	-	403,101	187,425	4,425	191,850
MRI income	723,000	-	723,000	723,000	-	723,000
In-kind contributions	47,561	-	47,561	934,258	-	934,258
Other income	69,270	-	69,270	110,884	-	110,884
Investment return - Net	(2,149)	254,327	252,178	(5,970)	167,447	161,477
Net assets released from restrictions	2,013,163	(2,013,163)	-	3,933,830	(3,933,830)	-
Total revenue, gains, and other support	16,178,939	88,669	16,267,608	15,347,826	428,115	15,775,941
Expenses						
Center for Regenerative Sports Medicine	5,754,658	-	5,754,658	4,807,776	-	4,807,776
Department of BioMedical Engineering	1,490,005	-	1,490,005	1,893,118	-	1,893,118
Surgical Skills Laboratory	340,342	-	340,342	285,528	-	285,528
Center for Outcomes-Based Orthopaedic Research	1,009,116	-	1,009,116	1,396,272	-	1,396,272
Education department	707,360	-	707,360	674,825	-	674,825
Department of Technology and Communications	355,303	-	355,303	265,963	-	265,963
Imaging research	212,220	-	212,220	279,622	-	279,622
General and administrative	2,768,074	-	2,768,074	3,622,540	-	3,622,540
Development	2,338,789	-	2,338,789	1,965,134	-	1,965,134
Total expenses	14,975,867	-	14,975,867	15,190,778	-	15,190,778
Change in Net Assets - Before provision for income tax recovery	1,203,072	88,669	1,291,741	157,048	428,115	585,163
Provision for Income Tax Recovery	-	-	-	138,216	-	138,216
Change in Net Assets	1,203,072	88,669	1,291,741	295,264	428,115	723,379
Net Assets - Beginning of year	2,639,242	9,862,258	12,501,500	2,343,978	9,434,143	11,778,121
Net Assets - End of year	**$ 3,842,314**	**$ 9,950,927**	**$ 13,793,241**	**$ 2,639,242**	**$ 9,862,258**	**$ 12,501,500**

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services							Support Services		
	Center for Regenerative Sports Medicine	Department of BioMedical Engineering	Surgical Skills Laboratory	Center for Outcomes-Based Orthopaedic Research	Education Department	Department of Technology and Communications	Imaging Research	General and Administrative	Development	Total
Personnel	$ 2,629,340	$ 830,518	$ 59,699	$ 687,383	$ 405,435	$ 226,183	$ 80,536	$ 1,381,526	$ 737,914	$ 7,038,534
Fringe	464,018	124,907	13,427	176,119	60,291	42,522	19,855	154,786	114,424	1,170,349
Travel	65,011	4,948	-	3,083	15,483	2,413	-	44,230	30,581	165,749
Equipment	366,505	125,180	3,897	698	2,175	18,130	-	30,243	953	547,781
Supplies	797,352	123,868	21,224	10,049	123,300	32,460	1,604	68,137	52,321	1,230,315
Contractual	737,465	26,641	-	48,852	5,322	8,855	58,557	625,882	424,850	1,936,424
Occupancy	421,362	144,869	95,734	12,798	6,664	16,502	19,310	134,287	68,523	920,049
Marketing and advertising	17,921	1,812	-	-	2,280	-	-	246	809,729	831,988
Depreciation and amortization	112,565	60,080	145,111	54,659	6,198	-	922	144,728	1,660	525,923
Other	143,119	47,182	1,250	15,475	80,212	8,238	31,436	184,009	97,834	608,755
Total functional expenses	**$ 5,754,658**	**$ 1,490,005**	**$ 340,342**	**$ 1,009,116**	**$ 707,360**	**$ 355,303**	**$ 212,220**	**$ 2,768,074**	**$ 2,338,789**	**$ 14,975,867**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services							Support Services		
	Center for Regenerative Sports Medicine	Department of BioMedical Engineering	Surgical Skills Laboratory	Center for Outcomes-Based Orthopaedic Research	Education Department	Department of Technology and Communications	Imaging Research	General and Administrative	Development	Total
Personnel	$ 2,208,420	$ 984,252	$ 60,421	$ 949,689	$ 285,879	$ 194,293	$ 131,681	$ 1,777,907	$ 567,273	$ 7,159,815
Fringe	274,098	153,754	11,373	170,385	58,184	35,015	28,027	199,517	80,060	1,010,413
Travel	66,733	3,723	-	11,620	18,539	1,875	1,524	91,968	55,635	251,617
Equipment	292,156	113,647	683	5,305	300	-	-	34,252	246	446,589
Supplies	566,574	350,186	58,862	11,288	184,881	21	2,064	66,433	6,174	1,246,483
Contractual	962,960	65,278	717	90,537	23,014	11,306	77,509	919,081	377,537	2,527,939
Occupancy	259,476	145,360	76,689	87,347	5,643	10,690	28,104	130,764	13,005	757,078
Marketing and advertising	-	-	-	-	-	-	-	12,428	727,721	740,149
Depreciation and amortization	117,796	57,951	75,127	53,451	569	-	-	150,892	1,454	457,240
Other	59,563	18,967	1,656	16,650	97,816	12,763	10,713	239,298	136,029	593,455
Total functional expenses	**$ 4,807,776**	**$ 1,893,118**	**$ 285,528**	**$ 1,396,272**	**$ 674,825**	**$ 265,963**	**$ 279,622**	**$ 3,622,540**	**$ 1,965,134**	**$ 15,190,778**

Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	$ 1,291,741	$ 723,379
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization expense	525,923	457,240
Investment return	(252,178)	(161,477)
Deferred taxes	-	(138,216)
Donated investments	(813,798)	(177,764)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(903,639)	742,001
Accounts receivable - Related party	83,517	(83,517)
Contributions receivable	907,721	1,896,013
Prepaid expenses and other assets	66,507	59,441
Accounts payable	157,997	(165,408)
Accounts payable - Related party	47,851	(329,395)
Accrued expenses	(86,125)	279,855
Net cash and cash equivalents provided by operating activities	1,025,517	3,102,152
Cash Flows from Investing Activities		
Purchase of property and equipment	(70,557)	(903,848)
Transfers to Vail Health Foundation	(1,000,000)	-
Proceeds from sales of investments	531,173	-
Net cash and cash equivalents used in investing activities	(539,384)	(903,848)
Cash Flows Used in Financing Activities - Payments on note payable	(63,283)	(147,096)
Net Increase in Cash and Cash Equivalents	422,850	2,051,208
Cash and Cash Equivalents - Beginning of year	3,877,995	1,826,787
Cash and Cash Equivalents - End of year	**$ 4,300,845**	**$ 3,877,995**
Supplemental Cash Flow Information - Cash paid for interest	$ -	$ 6,344

Note 1 - Nature of Business

The Steadman Philippon Research Institute (SPRI), a nonprofit organization, was founded in 1988 and incorporated in the state of Colorado on February 22, 1999. SPRI is located in Vail, Colorado, and its mission is: “Building on our legacy of excellence in orthopaedic sports medicine, SPRI is unlocking the secrets of healing, finding cures and enhancing lives through global leadership in regenerative medicine, scientific research, innovation and education.” SPRI works closely with The Steadman Clinic (the "Clinic"), focusing on translational science with a bench-to-bedside focus. The SPRI team is composed of local, national, and international scientists, researchers, medical professionals, and business professionals who are committed to producing high-impact research focused on keeping people active. Recognized globally for its pioneering musculoskeletal research, SPRI is not only committed to discovering healing solutions to orthopaedic conditions like osteoarthritis but is also focused on refining treatments, injury prevention research, and rehabilitation. Since 1993, SPRI’s database, one of the largest orthopaedic databases worldwide, has been tracking patient information and surgical outcomes, which has led to significant advancements in surgical techniques and rehabilitation strategies.

SPRI’s Center for Regenerative Sports Medicine (CRSM) is focused on the basic science of regenerative medicine, engaging in research designed to translate discoveries into practical clinical applications, including treatments for orthopaedic conditions and biologic strategies or promoting healthy aging. Led by an internationally diverse team of scientists and researchers, CRSM conducts basic science studies, preclinical trials, and clinical trials, all of which are compliant with federal guidelines.

SPRI’s Department of Biomedical Engineering (BME) is a collection of multidisciplinary laboratories that apply quantitative, analytical, and integrative methods to the field of orthopaedic medicine. With focuses on injury and reinjury prevention and restoration techniques, BME is dedicated to integrating clinical care, research, and education alongside the resources of renowned medical doctors to improve the treatment of musculoskeletal diseases and orthopaedic injuries. The team focuses on biomechanics, musculoskeletal mechanics, biomedical imaging, and orthopaedic engineering.

SPRI’s Center for Outcomes-Based Orthopaedic Research (Outcomes Based Research) has been tracking and studying patient outcomes for over 25 years. The department’s database includes over 40,000 orthopaedic surgeries and over 150,000 patient-centered outcomes surveys, which follow patients throughout their recoveries. The first of SPRI’s departments, Outcomes Based Research, has proven expertise in validating surgical treatments and rehabilitation techniques. The database is one of the largest and most robust in the field of orthopaedics.

SPRI created SPRI Leasing Corporation, a wholly owned subsidiary, in order to hold the assets, liabilities, revenue, and expenses derived from SPRI's MRI scanner.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of SPRI and SPRI Leasing Corporation (collectively, the "Institute"). All material intercompany accounts and transactions have been eliminated in consolidation.

Classification of Net Assets

Net assets of the Institute 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 Institute.

Note 2 - Significant Accounting Policies (Continued)

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 Institute or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

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.

Cash Equivalents

For the purpose of the accompanying consolidated financial statements, the Institute considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents unless held for reinvestment as part of the investment portfolio or otherwise encumbered. The carrying amount reported in the consolidated statement of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these investments. As of the date of the consolidated statement of financial position and periodically throughout the year, the Institute maintained balances in various operating accounts in excess of federally insured limits.

Accounts and Contributions Receivable

Accounts and contributions receivable represent amounts due from individuals and organizations in support of the Institute's programs. Management considers all amounts collectible; therefore, no allowance has been recorded as of December 31, 2021 and 2020.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the effective interest method and is reported as contributions.

Investments

The Institute holds alternative investments, which are not readily marketable and are measured at fair value, valued at net asset value (NAV) per share. The Institute reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Net asset value per share is considered to be a practical expedient for fair value.

Investment return includes dividends, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment returns are reflected in the consolidated statement of activities and changes in net assets as net assets without donor restrictions or net assets with donor restrictions, based upon the existence and nature of any donor or legally imposed restrictions.

Amounts Held at Vail Health Foundation

The Institute delegated investment management for the Institute's endowment to Vail Health Foundation (the "Foundation"). The endowment is held in a subaccount with the Foundation's investment custodian and managed according to the Foundation's investment policies. The Foundation will make distributions from the endowment fund annually in accordance with the Foundation's spending policy.

The Institute’s beneficial interest in net assets of the Foundation is reported at the Institute's share of the Foundation's investment pool. This amount is provided by the Foundation and is based on the fair value of the marketable securities underlying the fund.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives, which range from three to seven years. The cost of leasehold improvements is amortized over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Other Investments

The Institute holds contributed real estate, which was recorded at estimated fair value at the date of donation. The investment is assessed for impairment if events and circumstances warrant such a review. No such impairment was recognized during 2021 or 2020.

Contributions, Grants, and Corporate Partners

Gifts of cash and other assets received without donor stipulations are reported as net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as net assets with donor restrictions. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Gifts of land, buildings, equipment, and other long-lived assets are reported as net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as net assets with donor restrictions. Absent explicit donor stipulations for the time that long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

A portion of the Institute's revenue is derived from cost-reimbursable federal and other contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Institute has incurred expenditures in compliance with specific contract or grant provisions. The Institute received cost-reimbursable grants of $2,788,955 and $587,119 that have not been recognized at December 31, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

Government Grants

Revenue received for grants is considered a nonexchange transaction and is recognized as the conditions of the grants have been met. Grant funding received in advance of conditions being met is recorded as deferred revenue.

Revenue Recognition

The Institute generates its revenue from multiple sources, as described below:

<u>MRI Income</u>

Lease revenue is recognized based on a monthly rate at the time the MRI machine and related service are provided. The lease is executed with a related party under a noncancelable operating lease agreement.

Lease revenue recorded by the Institute is excluded from the scope of ASC 606 and falls under ASC 840, as the customer has the ability to control the use of the MRI machine during the lease agreement. Lease revenue accounts for $723,000 of total revenue for each of the years ended December 31, 2021 and 2020.

Note 2 - Significant Accounting Policies (Continued)

Government Contracts

In 2019, the Institute entered into a government contract to conduct research related to polytraumatic injuries. The research produced is for the sole benefit for the government entity in exchange for research funding. Revenue is recognized over time, as the Institute has the right to invoice based on performance to date. Invoices are submitted monthly and are due within 30 days of receipt. Grant revenue recognized over time for the years ended December 31, 2021 and 2020 was $1,500,000 and $1,291,668, respectively.

Fundraising Events

Fundraising events include income from events held by the Institute generally through sponsorships and ticket sales. The Institute recognizes amounts received as deferred revenue and records the income when the event occurs unless the donor explicitly waives the condition of the event taking place. As the time between the start and completion of each event is trivially short, as a practical matter, income is recognized upon completion of the event. Event participants and sponsors are generally invoiced upon registering for the event, and payment is due prior to the event. Income from fundraising events recognized at a point in time for the years ended December 31, 2021 and 2020 was $403,101 and $191,850, respectively.

Other Information

The opening balance of accounts receivable related to contracts with customers as of January 1, 2021 and 2020 was $323,636 and $1,065,637, respectively.

Total revenue recognized from contracts with customers for the years ended December 31, 2021 and 2020 was $1,972,371 and $1,594,402, respectively.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Payroll costs have been allocated between the various program and support services based on the time incurred benefiting the program. Rent is allocated based on square footage utilized. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Institute is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Institute and recognize a tax liability if the Institute has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Institute and has concluded that, as of December 31, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Institute is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The subsidiary is a for-profit corporation that is required to file a corporate income tax return for its operations and recognizes deferred tax assets and liabilities based upon differences between its basis of assets for tax and financial reporting purposes.

Reclassification

Certain 2020 amounts have been reclassified to conform to the 2021 presentation.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

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

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Institute's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Institute is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Institute’s consolidated statement of financial position as a result of the Institute's operating leases, as disclosed in Note 16, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Institute will recognize a lease liability and corresponding right-of-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Institute’s year ending December 31, 2022 and will be applied using the retrospective method.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including June 24, 2022, which is the date the consolidated financial statements were available to be issued.

Subsequent to year end, the Institute’s investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 3 - Liquidity

The Institute has $6,350,620 and $5,550,169 of financial assets available within one year of December 31, 2021 and 2020 to meet cash needs for general expenditure consisting of cash of $4,300,845 and $3,877,995, contributions receivable of $1,000,000 and $1,000,000, accounts receivable of $432,183 and $407,153, and short-term investments of $617,592 and $265,021, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

The Institute has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses. The Institute has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Institute invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Note 4 - Contributions Receivable

Contributions receivable consist of the following:

	2021	2020
Amounts due in:		
Less than one year	$ 1,000,000	$ 1,000,000
One to five years	3,000,000	4,000,000
Less unamortized discount	(141,211)	(233,490)
Total	$ 3,858,789	$ 4,766,510

The discount rates used ranged from 2.45 percent to 2.69 percent for 2021 and 2020.

In December 2015, the Institute entered into an agreement with a donor that guaranteed a minimum contribution of $1,000,000 per year from 2016 to 2025. The contribution has been recorded as a contribution receivable and is included in net assets with donor restrictions. In addition, there are certain conditional requirements in the agreement that allow the Institute to receive up to $4,300,000 per year.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Institute has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are reported at the Institute's share of the Foundation's investment pool. This amount is provided by the Foundation and is based on the fair value of the marketable securities underlying the fund.

Note 5 - Fair Value Measurements (Continued)

The following tables present information about the Institute's assets measured at fair value on a recurring basis at December 31, 2021 and 2020 and the valuation techniques used by the Institute to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2021			
	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, 2021
Assets				
Amount held at Vail Health Foundation	$ -	$ -	$ 3,469,500	$ 3,469,500
Equity securities	601,900	-	-	601,900
Total	$ 601,900	$ -	$ 3,469,500	4,071,400
Investments measured at NAV - Absolute return funds				15,692
Total assets				$ 4,087,092

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2020			
	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, 2020
Assets - Amounts held at Vail Health Foundation	$ -	$ -	$ 2,287,268	$ 2,287,268
Total	$ -	$ -	$ 2,287,268	2,287,268
Investments measured at NAV - Absolute return funds				79,550
Total assets				$ 2,366,818

The Institute holds cash equivalents totaling $0 and $185,471 at December 31, 2021 and 2020, respectively, which are not subject to fair value classification.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2021 and 2020 are as follows:

	Amounts Held at Vail Health Foundation
Balance at January 1, 2021	$ 2,287,268
Purchases	1,000,000
Sales	(72,095)
Total unrealized gains	254,327
Balance at December 31, 2021	$ 3,469,500

Note 5 - Fair Value Measurements (Continued)

		Amounts Held at Vail Health Foundation
Balance at January 1, 2020	$	2,119,821
Total unrealized gains		167,447
Balance at December 31, 2020	$	2,287,268

Note 6 - Investments

Investments reported at NAV consist of the following:

	December 31, 2021	December 31, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute return funds	$ 15,692	$ 79,550	None	Quarterly to Annually	45 to 90 Days

The absolute return funds employ a strategy to achieve consistent positive absolute returns with low volatility primarily by seeking to exploit pricing inefficiencies in equity and debt securities and by using a traditional hedge fund approach.

Note 7 - Property and Equipment

Property and equipment are summarized as follows:

	2021	2020
Machinery and equipment	$ 1,090,167	$ 1,059,322
Transportation equipment	6,325,395	6,295,750
Furniture and fixtures	302,667	302,667
Computer equipment and software	824,593	824,593
Leasehold improvements	2,326,139	2,326,139
Construction in progress	10,067	-
Total cost	10,879,028	10,808,471
Less accumulated depreciation and amortization	9,541,959	9,016,036
Net property and equipment	$ 1,337,069	$ 1,792,435

Depreciation and amortization expense for 2021 and 2020 was $525,923 and $457,240, respectively.

Note 8 - Line of Credit

The Institute has a line of credit agreement with a bank with available borrowings of approximately $1,500,000. Interest is payable monthly at a rate of 0.50 percent above the prime rate, with a floor of 4.25 percent (4.00 and 4.25 percent at December 31, 2021 and 2020, respectively). As of December 31, 2021 and 2020, there was no outstanding balance on the line of credit. The line of credit matures in May 2024.

Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2021	2020
Note payable to a finance company. The note accrued interest at 4.39 percent and was paid in full in April 2021	$ -	$ 63,283
Less current portion	-	63,283
Long-term portion	$ -	$ -

Note 10 - Net Assets

Net assets with donor restrictions as of December 31 are restricted for the following purposes or periods:

	2021	2020
Subject to expenditures for a specified purpose:		
Center for Regenerative Sports Medicine	$ 666,274	$ 899,242
Center for Outcomes-Based Orthopaedic Research	43,660	-
Department of BioMedical Engineering	14,454	200,059
Regenerative Medicine Innovation Project	1,898,250	1,705,053
Education	-	4,126
Total subject to expenditures for a specified purpose	2,622,638	2,808,480
Subject to the passage of time - Promises to give that are not restricted by donors but which are unavailable for expenditure until due	3,858,789	4,766,510
Endowments - Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation - Clinical fellowship and international scholars education programs	3,469,500	2,287,268
Total	$ 9,950,927	$ 9,862,258

Note 11 - Paycheck Protection Program Loans

During the years ended December 31, 2021 and 2020, the Institute received Paycheck Protection Program (PPP) loans in the amounts of $1,074,660 and $1,330,865, respectively. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met.

Accounting principles generally accepted in the United States of America (U.S. GAAP) for government grants, including certain forgivable government loans, are recognized as income in the period in which the Institute has substantially overcome all measurable performance-related barriers necessary to be entitled to keep the grant funds. As of December 31, 2021 and 2020, the Institute has assessed that all requirements for forgiveness were achieved and, therefore, has recorded grant revenue of $1,074,660 and $1,330,865, respectively, consistent with generally accepted accounting principles.

The Institute applied for and received notification from the SBA of forgiveness of both loan balances in their entirety in 2021. Although management considers it probable that the Institute was initially eligible for the loans and subsequent forgiveness, the SBA has the ability to review the Institute's loan files for a period subsequent to the date the loans were forgiven and could request additional documentation to support the Institute's initial eligibility for the loans and the request for forgiveness. In the event the SBA subsequently determines the Institute did not meet the initial eligibility requirements for the PPP loans or did not qualify for forgiveness, the SBA may pursue legal remedies at its discretion.

Note 12 - Employee Retention Credit

The CARES Act of 2020 introduced the Employee Retention Credit (ERC) as pandemic relief for eligible organizations. The ERC is a refundable credit against certain employment taxes and qualifies as a government grant. Under generally accepted accounting principles, government grants are recognized as revenue in the period in which an organization substantially overcomes all measurable barriers to be entitled to the funding. Management has determined that the measurable barriers that must be overcome for entitlement to the ERC funding are qualifying for the credits based on meeting the threshold for gross receipts decline in 2021 compared to 2019 and incurring eligible payroll expenses.

For the year ended December 31, 2021, the Institute determined these conditions have been met and recognized $795,092 of ERC revenue within government grants on the consolidated statement of activities and changes in net assets and recognized a corresponding receivable within other receivables on the consolidated statement of financial position.

The Institute's ERC claim is subject to review by the Internal Revenue Service (IRS) within the applicable statute of limitations. If a portion or all of the ERC is determined to be ineligible upon IRS review, the Institute would be required to return the ineligible portion on demand and could potentially be subject to penalties and interest on unpaid employment taxes.

Note 13 - Endowment

The Institute's endowment includes donor-restricted endowment funds held at the Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, the Institute classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the Institute's donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Note 13 - Endowment (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ -	$ 2,287,268	$ 2,287,268
Investment return	-	254,327	254,327
Contributions	-	1,000,000	1,000,000
Appropriation of endowment assets for expenditure	-	(72,095)	(72,095)
Endowment net assets - End of year	$ -	$ 3,469,500	$ 3,469,500

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ -	$ 2,119,821	$ 2,119,821
Investment return	-	167,447	167,447
Endowment net assets - End of year	$ -	$ 2,287,268	$ 2,287,268

Return Objectives and Risk Parameters

The endowment is held by the Foundation and is managed according to the Foundation's investment policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold on behalf of the Institute in perpetuity. The Foundation will make distributions from the endowment fund annually in accordance with the Foundation's spending policy. The Foundation's policy is to spend 4 percent of the total return using a rolling annual three year average market value calculated in December each year.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Note 14 - Retirement Plans

The Institute sponsors a 401(k) plan for employees. Employees become eligible after one year of service. The plan provides for the Institute to make a discretionary matching contribution. Contributions to the plan totaled $135,171 and $109,548 for the years ended December 31, 2021 and 2020, respectively.

Note 15 - Related Party Transactions

The following is a description of transactions between the Institute and related parties:

Contributions Receivable

The Institute entered into a contribution agreement, as well as a lease commitment with an organization whose board chair and chief executive officer (CEO) are board members of the Institute. Under the contribution agreement, the Institute recorded a contribution receivable in the amount of $10,000,000 during 2015, to be paid over 10 years. In addition, the Institute received contributions from this organization during the years ended December 31, 2021 and 2020 of approximately $3,400,000 and $3,300,000, respectively. The balance outstanding on the related party contribution receivable as of December 31, 2021 and 2020 was $3,858,789 and $4,766,510, net of discount, respectively.

Note 15 - Related Party Transactions (Continued)

Accounts Receivable/Payable

At December 31, 2021 and 2020, the Institute had accounts receivable from the Clinic totaling $0 and $83,517, respectively. At December 31, 2021 and 2020, the Institute had accounts payable to the Clinic totaling $38,111 and $0, respectively.

At December 31, 2021 and 2020, the Institute had accounts payable to other related parties totaling $9,740 and $0, respectively.

Contributions

For the years ended December 31, 2021 and 2020, the Institute received approximately $825,000 and $783,000, respectively, in contributions from employees and medical staff at the Clinic. In addition, contributions from board members totaled approximately $1,524,000 and $1,576,000 during the years ended December 31, 2021 and 2020, respectively. There are two physicians of the Clinic who are board members of the Institute.

In addition, the Institute received $723,000 from the Clinic during both 2021 and 2020 as a corporate sponsor and for the use of certain equipment.

See Note 16 for additional related party transactions.

Note 16 - Operating Leases

The Institute is obligated under noncancelable operating leases with a related party primarily for operating facilities, expiring in 2037. The leases require the Institute to pay taxes, insurance, utilities, rent, and maintenance costs. The Institute is also obligated under noncancelable operating leases with nonrelated parties primarily for operating facilities. The leases expire through December 2026. Total rent expense under these leases was $1,015,949 and $927,571 for 2021 and 2020, respectively. Of these amounts, $460,562 for the years ended December 31, 2021 and 2020 was with a related party.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2022	$ 1,516,771
2023	1,445,633
2024	1,379,131
2025	1,339,154
2026	1,364,598
Thereafter	12,300,890
Total	$ 19,346,177

Note 17 - Income Taxes

The provision for income tax recovery and expense has been computed at the statutory rates applicable during the period. The components of tax recovery on income are approximately as follows:

	2021	2020
Deferred:		
Federal	$ -	$ (114,403)
State	-	(23,813)
Total	$ -	$ (138,216)

Note 17 - Income Taxes (Continued)

The Institute's deferred tax assets and liabilities are a result of the difference in the tax and book basis of depreciable assets and net operating losses.