Steadman Philippon Research Institute

Consolidated Financial Report

December 31, 2019

Contents

Plante & Moran, PLLC
Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Steadman Philippon Research Institute

We have audited the accompanying consolidated financial statements of Steadman Philippon Research Institute (the "Institute"), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steadman Philippon Research Institute as of December 31, 2019 and 2018 and its changes in 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.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the impact of the worldwide COVID-19 pandemic on the Institute's net assets, cash flows, and financial condition is unknown. Our opinion is not modified with respect to this matter.

To the Board of Directors
Steadman Philippon Research Institute

As described in Note 2 to the consolidated financial statements, the Institute adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as of January 1, 2019. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

June 24, 2020

Consolidated Statement of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,826,787	$ 1,727,737
Accounts receivable	1,065,637	310,867
Contributions receivable - Current portion	2,010,000	2,940,000
Prepaid expenses and other assets	215,906	113,841
Investments	93,227	145,340
Total current assets	5,211,557	5,237,785
Net Contributions Receivable - Less current portion	4,652,523	6,500,891
Deferred Tax Asset	-	10,650
Property and Equipment - Net	1,345,827	791,628
Investments - Other	227,050	227,050
Amounts Held at Vail Health Foundation	2,119,821	1,000,000
Total assets	**$ 13,556,778**	**$ 13,768,004**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 543,450	$ 173,244
Accounts payable - Related parties	329,395	190,184
Accrued expenses	693,910	696,750
Current portion of note payable	147,142	140,833
Total current liabilities	1,713,897	1,201,011
Note Payable - Less current portion	63,237	210,379
Deferred Tax Liability	1,523	-
Total liabilities	1,778,657	1,411,390
Net Assets		
Without donor restrictions	2,343,978	956,516
With donor restrictions	9,434,143	11,400,098
Total net assets	11,778,121	12,356,614
Total liabilities and net assets	**$ 13,556,778**	**$ 13,768,004**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Grants and corporate partners	$ 4,954,025	$ 37,695	$ 4,991,720	$ 4,648,549	$ 597,768	$ 5,246,317
Contributions	801,062	4,520,999	5,322,061	1,048,766	5,650,144	6,698,910
Fundraising events	127,450	245,961	373,411	733,233	103,062	836,295
Government contracts	936,418	-	936,418	-	-	-
MRI income	723,000	-	723,000	723,000	-	723,000
In-kind contributions	298,800	-	298,800	503,020	-	503,020
Other income	179,658	-	179,658	108,835	-	108,835
Investment return - Net	2,207	119,821	122,028	(31,973)	-	(31,973)
Net assets released from restrictions	6,890,431	(6,890,431)	-	3,445,371	(3,445,371)	-
Total revenue, gains, and other support	14,913,051	(1,965,955)	12,947,096	11,178,801	2,905,603	14,084,404
Expenses						
Center for Regenerative Sports Medicine	4,105,853	-	4,105,853	2,969,477	-	2,969,477
Department of BioMedical Engineering	1,761,902	-	1,761,902	1,656,608	-	1,656,608
Surgical Skills Laboratory	302,947	-	302,947	695,334	-	695,334
Center for Outcomes-Based Orthopaedic Research	1,286,788	-	1,286,788	1,135,339	-	1,135,339
Education department	724,244	-	724,244	739,477	-	739,477
Department of Technology and Communications	447,927	-	447,927	402,806	-	402,806
Imaging research	368,868	-	368,868	347,210	-	347,210
General and administrative	2,722,729	-	2,722,729	1,874,443	-	1,874,443
Development	1,792,158	-	1,792,158	1,912,722	-	1,912,722
Total operating expenses	13,513,416	-	13,513,416	11,733,416	-	11,733,416
Change in Net Assets - Before provision for income tax (expense) recovery	1,399,635	(1,965,955)	(566,320)	(554,615)	2,905,603	2,350,988
Provision for Income Tax (Expense) Recovery	(12,173)	-	(12,173)	46,899	-	46,899
Change in Net Assets	1,387,462	(1,965,955)	(578,493)	(507,716)	2,905,603	2,397,887
Net Assets - Beginning of year	956,516	11,400,098	12,356,614	1,464,232	8,494,495	9,958,727
Net Assets - End of year	**$ 2,343,978**	**$ 9,434,143**	**$ 11,778,121**	**$ 956,516**	**$ 11,400,098**	**$ 12,356,614**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2019

	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
Salaries and benefits	$ 1,997,679	$ 989,331	$ 81,044	$ 1,111,315	$ 342,437	$ 368,035	$ 142,621	$ 1,722,151	$ 546,279	$ 7,300,892
Supplies (office, computer, and lab)	305,919	374,155	125,861	25,806	106,043	72	1,857	45,096	17,157	1,001,966
Events and fundraising	-	360	-	-	143,456	-	-	24,985	172,643	341,444
Printing and postage	5,883	4,355	39	3,188	2,364	71	2,923	5,077	6,095	29,995
Maintenance and supplies	90,139	26,335	18,028	9,709	118	111	5,134	334,870	16,049	500,493
Rent and leases	376,334	131,405	43,395	52,532	3,691	15,968	18,774	18,886	8,053	669,038
Telephone and utilities	71,396	48,310	28,606	26,737	2,433	7,929	9,407	44,604	5,211	244,633
Travel	100,645	34,038	1,250	17,835	46,266	3,155	2,207	29,888	26,387	261,671
Professional fees	751,832	68,152	105	8,642	5,127	44,518	55,813	167,758	187,066	1,289,013
Fellows	-	-	-	-	6,626	-	-	150	-	6,776
Meals and entertainment	11,412	1,470	-	697	26,122	-	404	19,331	2,040	61,476
Marketing	-	-	-	-	10,238	6,150	-	38,051	758,065	812,504
Scientific summit	271,035	-	-	-	-	-	-	-	-	271,035
Miscellaneous	79,255	39,944	1,652	20,815	28,754	1,918	8,017	222,130	45,659	448,144
Depreciation and amortization	44,324	44,047	2,967	9,512	569	-	121,711	30,944	1,454	255,528
Interest expense	-	-	-	-	-	-	-	18,808	-	18,808
Total functional expenses	**$ 4,105,853**	**$ 1,761,902**	**$ 302,947**	**$ 1,286,788**	**$ 724,244**	**$ 447,927**	**$ 368,868**	**$ 2,722,729**	**$ 1,792,158**	**$ 13,513,416**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	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
Salaries and benefits	$ 860,857	$ 654,008	$ 77,378	$ 987,517	$ 390,377	$ 327,242	$ 143,636	$ 1,286,443	$ 441,978	$ 5,169,436
Consulting and contract labor	666,251	125,941	50	18,100	10,240	22,910	22,654	102,115	224,389	1,192,650
Supplies (office, computer, and lab)	367,328	463,847	525,934	13,072	5,605	3,731	745	70,653	22,725	1,473,640
Events and fundraising	1,997	-	-	-	-	-	-	-	385,509	387,506
Printing and postage	11,379	3,034	710	3,528	2,773	1,199	309	1,694	26,828	51,454
Maintenance and supplies	26,169	12,800	36,007	6,077	5,763	5,662	5,662	6,773	7,494	112,407
Rent and leases	326,688	236,481	23,561	25,765	2,051	8,480	10,205	1,794	4,330	639,355
Telephone and utilities	54,826	38,578	23,802	22,244	2,723	8,856	10,294	75,112	5,158	241,593
Travel	250,400	47,115	-	28,894	22,105	2,863	5,164	18,388	30,346	405,275
Professional fees	77,555	8,575	-	235	18,634	6,619	-	65,610	2,413	179,641
Fellows	-	-	-	-	30,078	-	-	-	-	30,078
Education meetings and lectures	5,066	2,175	-	-	176,608	-	-	-	-	183,849
Direct mail and planned giving	-	-	-	-	-	-	-	-	43,750	43,750
Meals and entertainment	39,306	717	-	4,861	15,419	-	103	42,818	7,569	110,793
Meetings (board and SAC)	35,654	-	-	-	-	-	-	24,551	-	60,205
Marketing	500	800	-	200	10,365	-	200	5,295	687,004	704,364
Scientific summit	188,771	-	-	-	-	-	-	-	-	188,771
Miscellaneous	28,030	23,177	4,165	23,621	46,194	8,885	6,110	78,338	18,043	236,563
Depreciation and amortization	28,700	39,360	3,727	1,225	542	6,359	121,665	28,356	5,186	235,120
Interest expense	-	-	-	-	-	-	20,463	66,503	-	86,966
Total functional expenses	**$ 2,969,477**	**$ 1,656,608**	**$ 695,334**	**$ 1,135,339**	**$ 739,477**	**$ 402,806**	**$ 347,210**	**$ 1,874,443**	**$ 1,912,722**	**$ 11,733,416**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (578,493)	$ 2,397,887
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation and amortization expense	255,528	235,120
Investment return	(122,028)	31,973
Endowment contributions	(26,195)	(2,973,805)
Deferred taxes	12,173	(46,899)
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable	(754,770)	(252,512)
Accounts receivable - Related party	-	245,836
Contributions receivable	2,778,368	(946,396)
Prepaid expenses and other assets	(102,065)	(10,236)
Accounts payable	370,206	46,581
Accounts payable - Related party	139,211	190,184
Accrued expenses	(2,840)	80,423
Deferred revenue	-	(10,000)
Net cash provided by (used in) operating activities	1,969,095	(1,011,844)
Cash Flows from Investing Activities		
Purchases of property and equipment	(809,727)	(150,268)
Transfers to Vail Health Foundation	(1,000,000)	(1,000,000)
Proceeds from sale of investments	54,320	817
Net cash used in investing activities	(1,755,407)	(1,149,451)
Cash Flows from Financing Activities		
Payments on line of credit	-	(1,273,800)
Payments on note payable	(140,833)	(145,764)
Endowment contributions	26,195	2,973,805
Net cash (used in) provided by financing activities	(114,638)	1,554,241
Net Increase (Decrease) in Cash and Cash Equivalents	99,050	(607,054)
Cash and Cash Equivalents - Beginning of year	1,727,737	2,334,791
Cash and Cash Equivalents - End of year	**$ 1,826,787**	**$ 1,727,737**
Supplemental Cash Flow Information - Cash paid for interest	$ 18,808	$ 86,966

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, 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 committed to not only 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 for promoting healthy aging. Led by an internationally diverse team of scientists and researchers, the 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 reporting entity referred to as Steadman Philippon Research Institute and its subsidiary (the "Institute") includes the accounts of SPRI and SPRI Leasing Corporation. All material intercompany accounts and transactions have been eliminated in consolidation.

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncements

On January 1, 2019, the Institute adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which supersedes Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Institute elected to apply the new revenue recognition guidance using the modified retrospective approach. Analysis of various provisions of this standard resulted in no significant changes in the way the Institute recognizes revenue, and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Effective January 1, 2019, the Institute adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Institute elected to apply the new guidance using the modified prospective approach. The adoption did not have a material impact to the financial statements, and the Institute's revenue recognition practices were substantially unchanged as a result of applying ASU No. 2018-18.

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.

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, whereby 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 purchased with original maturities of three months or less 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.

Note 2 - Significant Accounting Policies (Continued)

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, 2019 and 2018.

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.

Balances 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.

Property and Equipment

Leasehold improvements 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 2019 or 2018.

Note 2 - Significant Accounting Policies (Continued)

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.

Revenue Recognition

The Institute has adopted Accounting Standards Codification (ASC) 606 as of January 1, 2019. The core principle of ASC 606 is that an organization will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the organization expects to be entitled to in exchange for those goods or services.

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

MRI Income

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 the years ended December 31, 2019 and 2018, respectively.

Government Contract Revenue

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 year ended December 31, 2019 was $936,418.

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 year ended December 31, 2019 was $373,411.

Other Information

The opening balance of accounts receivable related to contracts with customers as of January 1, 2019 and 2018 was $310,867 and $58,355, respectively.

Note 2 - Significant Accounting Policies (Continued)

Deferred revenue represents contract liabilities related to contracts with customers. The opening balance of deferred revenue (contract liabilities) as of January 1, 2019 and 2018 was $0.

Total revenue recognized from contracts with customers for the year ended December 31, 2019 was $1,309,829.

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 programs 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, 2019 and 2018, 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.

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.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued 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-to-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 operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations 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 14, 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-to-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.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including June 24, 2020, which is the date the consolidated financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus, known as COVID-19, a pandemic. In response, most U.S. states have implemented measures to combat the outbreak that have impacted U.S. business operations. As of the date of issuance of the consolidated financial statements, the Institute’s operations have not been significantly impacted, but the Institute continues to monitor the situation. The Institute received financial assistance of $1,330,865 on April 20, 2020 through the Paycheck Protection Program offered through the Coronavirus Aid, Relief, and Economic Security Act. No impairments were recorded as of the consolidated statement of financial position date, as no triggering events or changes in circumstances had occurred as of year end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Institute’s changes in net assets, cash flows, and financial condition could be impacted, the extent of the impact cannot be reasonably estimated at this time.

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 $4,995,651 and $5,123,944 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditure consisting of cash of $1,826,787 and $1,727,737, contributions receivable of $2,010,000 and $2,940,000, accounts receivable of $1,065,637 and $310,867, and short-term investments of $93,227 and $145,340 at December 31, 2019 and 2018, 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.

Note 3 - Liquidity (Continued)

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

Contributions receivable consist of the following:

	2019	2018
Amounts due in:		
Less than one year	$ 2,010,000	$ 2,940,000
One to five years	4,000,000	6,010,000
More than five years	1,000,000	1,000,000
Less unamortized discount	(347,477)	(509,109)
Total	$ 6,662,523	$ 9,440,891

The discount rates used ranged from 2.45 percent to 2.69 percent for December 31, 2019 and 2018.

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 - Investments

Investments are reported at NAV and consist of the following:

	December 31, 2019	December 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Funds	$ 93,227	$ 145,340	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.

As of December 31, 2019 and 2018, investment return includes net realized and unrealized gain (loss) of $2,206 and $(24,446), respectively.

Note 6 - 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.

The following tables present information about the Institute's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Institute to determine those fair values.

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

Note 6 - Fair Value Measurements (Continued)

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 based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Institute's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	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, 2019
Assets - Amounts held at Vail Health Foundation	$ -	$ -	$ 2,119,821	$ 2,119,821
Investments measured at NAV - Absolute return funds				93,227
Total assets				$ 2,213,048

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	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, 2018
Assets - Amounts held at Vail Health Foundation	$ -	$ -	$ 1,000,000	$ 1,000,000
Investments measured at NAV - Absolute return funds				145,340
Total assets				$ 1,145,340

Note 7 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Machines and video equipment	$ 1,059,322	$ 1,050,583
Medical equipment	5,311,392	5,002,079
Furniture and fixtures	302,667	293,457
Equipment	814,001	526,113
Leasehold improvements	2,326,139	2,222,660
Construction in progress	91,101	-
Total cost	9,904,622	9,094,892
Less accumulated depreciation and amortization	8,558,795	8,303,264
Net property and equipment	$ 1,345,827	$ 791,628

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 (5.25 and 6.00 percent at December 31, 2019 and 2018, respectively). As of December 31, 2019 and 2018, there was no outstanding balance on the line of credit. The line of credit matures in March 2021.

Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2019	2018
Note payable to a finance company in monthly installments of $12,787 due April 2021. The note accrues interest at 4.39 percent and is collateralized by equipment	$ 210,379	$ 351,212
Less current portion	147,142	140,833
Long-term portion	$ 63,237	$ 210,379

The balance of the above debt matures as follows:

Years Ending	Amount
2020	$ 147,142
2021	63,237
Total	$ 210,379

Note 10 - Net Assets

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

	2019	2018
Subject to expenditures for a specified purpose:		
Center for Regenerative Sports Medicine	$ 451,740	$ 993,834
Center for Outcomes-Based Orthopaedic Research	-	20,000
Department of BioMedical Engineering	200,059	273,086
Imaging	-	84,427
Education	-	500,000
Total subject to expenditures for a specified purpose	651,799	1,871,347
Subject to the passage of time - Promises to give that are not restricted by donors but which are unavailable for expenditure until due	6,662,523	8,528,751
Endowments - Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation - Clinical fellowship and international scholars education programs	2,119,821	1,000,000
Total	$ 9,434,143	$ 11,400,098

Note 11 - Endowment

The Institute's endowment includes donor-restricted endowment funds held at Vail Health Foundation (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

Note 11 - Endowment (Continued)

- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ -	$ 1,000,000	$ 1,000,000
Investment return	-	119,821	119,821
Contributions	-	1,000,000	1,000,000
Endowment net assets - End of year	$ -	$ 2,119,821	$ 2,119,821

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ -	$ -	$ -
Contributions	-	1,000,000	1,000,000
Endowment net assets - End of year	$ -	$ 1,000,000	$ 1,000,000

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.

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 12 - 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 $60,477 and $65,412 for the years ended December 31, 2019 and 2018, respectively.

Note 13 - 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 chairman, chief executive officer (CEO), and president of their foundation 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, 2019 and 2018 of approximately $3,300,000. The balance outstanding on the related party contribution receivable as of December 31, 2019 and 2018 was $5,652,523 and $6,517,348, net of discount, respectively. The Institute has a payable to the organization of $37,256 and $0 as of December 31, 2019 and 2018, respectively.

Accounts Payable

At December 31, 2019 and 2018, the Institute had accounts payable to The Steadman Clinic totaling $292,139 and $190,184, respectively.

Contributions

For the years ended December 31, 2019 and 2018, the Institute received approximately $700,000 and $719,000, respectively, in contributions from related parties, including various board members, employees, and medical staff at The Steadman Clinic (the "Clinic"). 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 2019 and 2018 as a corporate sponsor and for the use of certain equipment. The balance due from the Clinic totaled $0 as of December 31, 2019 and 2018.

See Note 14 for additional related party transactions.

Note 14 - Operating Leases

The Institute is obligated under noncancelable operating leases with a related party primarily for operating facilities, expiring in 2026. 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 2022. Total rent expense under these leases was $882,094 and $806,019 for 2019 and 2018, respectively. Of these amounts, $460,562 for the years ended December 31, 2019 and 2018 was with a related party.

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

Years Ending December 31	Amount
2020	$ 917,277
2021	766,708
2022	547,824
2023	321,404
2024	321,404
Thereafter	642,808
Total	$ 3,517,425

Note 15 - 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 expense (recovery) on income are approximately as follows:

	2019	2018
Deferred:		
Federal	$ 9,887	$ (38,465)
State	2,286	(8,434)
Total	$ 12,173	$ (46,899)

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.