Steadman Philippon Research Institute

Consolidated Financial Report
December 31, 2022

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, 2022 and 2021 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, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the 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.

Emphasis of Matters

As described in Note 3 to the consolidated financial statements, on January 1, 2022, the Institute adopted Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective adoption method. Our opinion is not modified with respect to this matter.

As described in Note 6, the consolidated financial statements include a beneficial interest in assets held at the Vail Health Foundation (the "Foundation") valued at $2,981,352 (26 percent of net assets) at December 31, 2022 and at $3,469,500 (25 percent of net assets) at December 31, 2021, whose fair value has been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the Foundation's fund manager. Our opinion is not modified with respect to this matter.

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.

To the Board of Directors
Steadman Philippon Research Institute

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.

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 July 7, 2023 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

July 7, 2023

Consolidated Statement of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 3,948,571	$ 4,300,845
Accounts receivable	799,714	432,183
Other receivables	812,791	795,092
Contributions receivable - Current portion	1,075,000	1,000,000
Prepaid expenses and other assets	161,480	89,958
Investments	-	617,592
Total current assets	6,797,556	7,235,670
Net Contributions Receivable - Less current portion	2,067,326	2,858,789
Deferred Tax Asset	85,365	136,693
Property and Equipment - Net	1,436,272	1,337,069
Right-of-use Operating Lease Assets - Net	3,684,918	-
Investments - Other	227,050	227,050
Beneficial Interest in Assets Held at Vail Health Foundation	2,981,352	3,469,500
Total assets	**$ 17,279,839**	**$ 15,264,771**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 573,066	$ 536,039
Accounts payable - Related parties	403,959	47,851
Accrued payroll-related expenses	1,030,004	887,640
Current portion of operating lease liabilities	487,476	-
Total current liabilities	2,494,505	1,471,530
Operating Lease Liabilities - Net of current portion	3,226,623	-
Total liabilities	5,721,128	1,471,530
Net Assets		
Without donor restrictions	2,928,002	3,842,314
With donor restrictions	8,630,709	9,950,927
Total net assets	11,558,711	13,793,241
Total liabilities and net assets	**$ 17,279,839**	**$ 15,264,771**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Grants and corporate partners	$ 4,751,656	$ -	$ 4,751,656	$ 4,867,651	$ -	$ 4,867,651
Contributions	3,294,233	1,455,391	4,749,624	3,154,107	1,847,505	5,001,612
Government grants	2,492,386	-	2,492,386	3,403,235	-	3,403,235
Government contracts	1,125,000	-	1,125,000	1,500,000	-	1,500,000
Fundraising events	291,897	-	291,897	403,101	-	403,101
MRI income	723,000	-	723,000	723,000	-	723,000
Nonfinancial contributions	22,800	-	22,800	47,561	-	47,561
Other income	194,324	-	194,324	69,270	-	69,270
Investment return - Net	(25,069)	(488,148)	(513,217)	(2,149)	254,327	252,178
Net assets released from restrictions	2,287,461	(2,287,461)	-	2,013,163	(2,013,163)	-
Total revenue, gains, and other support	15,157,688	(1,320,218)	13,837,470	16,178,939	88,669	16,267,608
Expenses						
Center for Regenerative Sports Medicine	5,795,883	-	5,795,883	5,754,658	-	5,754,658
Department of BioMedical Engineering	1,497,145	-	1,497,145	1,490,005	-	1,490,005
Surgical Skills Laboratory	360,119	-	360,119	340,342	-	340,342
Center for Outcomes-Based Orthopaedic Research	1,050,189	-	1,050,189	1,009,116	-	1,009,116
Education department	1,320,704	-	1,320,704	707,360	-	707,360
Department of Technology and Communications	336,471	-	336,471	355,303	-	355,303
Imaging research	268,343	-	268,343	212,220	-	212,220
General and administrative	2,995,716	-	2,995,716	2,768,074	-	2,768,074
Development	2,395,305	-	2,395,305	2,338,789	-	2,338,789
Total expenses	16,019,875	-	16,019,875	14,975,867	-	14,975,867
Change in Net Assets - Before provision for income tax expense	(862,187)	(1,320,218)	(2,182,405)	1,203,072	88,669	1,291,741
Provision for Income Tax Expense	(52,125)	-	(52,125)	-	-	-
Change in Net Assets	(914,312)	(1,320,218)	(2,234,530)	1,203,072	88,669	1,291,741
Net Assets - Beginning of year	3,842,314	9,950,927	13,793,241	2,639,242	9,862,258	12,501,500
Net Assets - End of year	**$ 2,928,002**	**$ 8,630,709**	**$ 11,558,711**	**$ 3,842,314**	**$ 9,950,927**	**$ 13,793,241**

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022

	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	$ 2,588,530	$ 895,795	$ 55,066	$ 581,486	$ 621,099	$ 195,693	$ 145,135	$ 1,495,416	$ 758,325	$ 7,336,545
Fringe	520,585	198,356	20,196	194,537	139,117	61,319	36,933	260,795	118,345	1,550,183
Travel	94,186	1,282	-	1,486	111,936	4,268	6,076	74,213	36,877	330,324
Equipment	190,799	57,239	12,657	344	-	14,724	-	44,303	1,391	321,457
Supplies	613,260	85,347	38,703	9,951	139,391	29,889	589	75,896	13,082	1,006,108
Contractual	1,144,041	32,711	-	131,473	75,598	7,361	55,395	527,880	416,649	2,391,108
Occupancy	286,623	122,551	84,697	40,642	7,489	13,337	21,729	135,554	70,349	782,971
Marketing and advertising	51,399	-	-	-	9,600	1,628	-	5,527	758,516	826,670
Depreciation and amortization	158,511	51,503	146,950	53,189	6,441	-	461	130,636	5,951	553,642
Professional development	25,615	5,264	-	14,631	23,570	-	1,400	3,916	8,400	82,796
Employee expense	32,784	20,085	1,850	13,000	16,115	3,900	-	95,193	15,786	198,713
Event food and beverage	19,901	-	-	-	166,831	346	-	31,017	82,288	300,383
Corporate insurance	46,983	-	-	-	-	-	-	42,580	1,441	91,004
Other	22,666	27,012	-	9,450	3,517	4,006	625	72,790	107,905	247,971
Total functional expenses	**$ 5,795,883**	**$ 1,497,145**	**$ 360,119**	**$ 1,050,189**	**$ 1,320,704**	**$ 336,471**	**$ 268,343**	**$ 2,995,716**	**$ 2,395,305**	**$ 16,019,875**

See notes to consolidated financial statements.

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
Professional development	42,944	3,566	-	5,805	11,445	-	400	1,858	16,712	82,730
Employee expense	18,610	10,166	1,250	5,000	21,638	2,500	1,250	31,024	4,798	96,236
Event food and beverage	3,550	68	-	130	34,812	1,277	-	44,999	31,351	116,187
Corporate insurance	36,727	-	-	-	-	-	-	54,634	1,355	92,716
Other	41,288	33,382	-	4,540	12,317	4,461	29,786	51,494	43,618	220,886
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 Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (2,234,530)	$ 1,291,741
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization expense	553,642	525,923
Investment return	513,217	(252,178)
Deferred taxes	51,328	-
Donated investments	(1,251,152)	(813,798)
Amortization of right-of-use operating lease asset	502,958	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable and other receivables	(385,230)	(903,639)
Accounts receivable - Related party	-	83,517
Contributions receivable	716,463	907,721
Prepaid expenses and other assets	(71,522)	66,507
Accounts payable	37,027	157,997
Accounts payable - Related party	356,108	47,851
Accrued payroll-related expenses	142,364	(86,125)
Operating lease liability	(473,777)	-
Net cash and cash equivalents (used in) provided by operating activities	(1,543,104)	1,025,517
Cash Flows from Investing Activities		
Purchase of property and equipment	(652,845)	(70,557)
Transfers to Vail Health Foundation	-	(1,000,000)
Proceeds from sales of investments	1,843,675	531,173
Net cash and cash equivalents provided by (used in) investing activities	1,190,830	(539,384)
Cash Flows Used in Financing Activities - Payments on note payable	-	(63,283)
Net (Decrease) Increase in Cash and Cash Equivalents	(352,274)	422,850
Cash and Cash Equivalents - Beginning of year	4,300,845	3,877,995
Cash and Cash Equivalents - End of year	**$ 3,948,571**	**$ 4,300,845**
Significant Noncash Transactions - Operating lease right-of-use assets and liabilities acquired	$ 409,740	$ -

See notes to consolidated financial statements.

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.

SPRI created SPRI Golf Inc., a wholly owned subsidiary, to handle golf services (golf lessons) and merchandise sales.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of SPRI have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Principles of Consolidation

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

Note 2 - Significant Accounting Policies (Continued)

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, 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 December 31, 2022 and 2021, balances maintained by the Institute in various operating accounts exceeded federally insured limits by approximately $3,726,000 and $4,092,000, respectively.

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, 2022 and 2021.

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

Investments are reported at their fair values on the consolidated statement of financial position. Investment income, gains, and losses are reported on the consolidated statement of activities and changes in net assets. Investments in marketable securities generally consist of donated securities, which are liquidated shortly after receipt.

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.

Note 2 - Significant Accounting Policies (Continued)

Beneficial Interest in Assets 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.

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.

Leases

The Institute has operating leases, as described in Note 16. The Institute recognizes expense for operating leases on a straight-line basis over the lease term. The Institute made a policy election not to separate lease and nonlease components for all leases. Therefore, all payments are included in the calculation of the right-of-use asset and lease liability.

The Institute has operating leases for operating facilities with a lease term of one year or less that the Institute elected to account for as short-term leases.

The Institute elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability in place of the incremental borrowing rate for all leases.

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 2022 or 2021.

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.

Note 2 - Significant Accounting Policies (Continued)

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 $3,002,353 and $2,788,955 that have not been recognized at December 31, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred.

Nonfinancial contributions are recorded as contributions and program services expenses. Nonfinancial contributions for the years ended December 31, 2022 and 2021 totaled $22,800 and $47,561, respectively, and consisted of donated orthopaedic surgical devices. The devices were valued at fair market value, which is based on the retail price, and were used for program-related needs during the year. These items were contributed without donor restrictions.

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:

MRI Income

Lease revenue with a related party is recognized based on a monthly rate at the time the MRI machine and related service are provided.

Lease revenue is recognized according to lease accounting guidance, as the customer has the ability to control the use of the MRI machine during the lease agreement. Lease revenue totaled $723,000 for each of the years ended December 31, 2022 and 2021.

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 of 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. Contract revenue recognized over time for the years ended December 31, 2022 and 2021 was $1,125,000 and $1,500,000, 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, 2022 and 2021 was $291,897 and $403,101, respectively.

Other Information

The opening balance of accounts receivable related to contracts with customers as of January 1, 2022 and 2021 was $432,183 and $323,636, respectively. Accounts receivable related to contracts with customers was $0 at December 31, 2022.

Note 2 - Significant Accounting Policies (Continued)

Total revenue recognized from contracts with customers for the years ended December 31, 2022 and 2021 was $1,534,888 and $1,972,371, 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, 2022 and 2021, 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.

SPRI Leasing Corporation and SPRI Golf Inc. are for-profit corporations that are required to file corporate income tax returns for their operations and recognize deferred tax assets and liabilities based upon differences between their basis of assets for tax and financial reporting purposes.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including July 7, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncement

As of January 1, 2022, the Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. 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 operations. The Institute elected to adopt the ASU using the modified retrospective method as of January 1, 2022 and applied the following practical expedients:

- The Institute did not reassess if expired or existing contracts are or contain a lease.
- The Institute did not reassess the lease classification for expired or existing leases.
- The Institute did not reassess initial direct costs for any existing leases.
- The Institute used hindsight to determine the lease term and to assess impairment of the right-of-use assets for existing leases.

As a result of the adoption of the ASU, the Institute recorded a right-of-use asset of $3,778,136 and a lease liability of $3,778,136 as of January 1, 2022 for existing operating leases. There was no impact on net assets as a result of adopting the new ASU.

Note 4 - Liquidity

The Institute's financial assets available within one year of the consolidated statement of financial position date for general expenditure are as follows:

	2022	2021
Cash and cash equivalents	$ 3,948,571	$ 4,300,845
Accounts receivable	799,714	432,183
Other receivables	812,791	795,092
Contributions receivable	1,075,000	1,000,000
Investments	-	617,592
Total	$ 6,636,076	$ 7,145,712

None of these 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 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, the Institute invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

The Institute also realizes there could be unanticipated liquidity needs.

The Institute has a line of credit in the amount of $1,500,000, which it could draw upon if needed, as further described in Note 9.

Note 5 - Contributions Receivable

Contributions receivable consist of the following:

	2022	2021
Amounts due in:		
Less than one year	$ 1,075,000	$ 1,000,000
One to five years	2,150,000	3,000,000
Less unamortized discount	(82,674)	(141,211)
Total	$ 3,142,326	$ 3,858,789

The discount rates used range from 1.98 percent to 4.1 percent for December 31, 2022 and 2021.

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 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.

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 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.

The following tables present information about the Institute’s assets measured at fair value on a recurring basis at December 31, 2022 and 2021 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, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Assets - Amount held at Vail Health Foundation	$ -	$ -	$ 2,981,352	$ 2,981,352

	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

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2022 and 2021 are as follows:

	Amounts Held at Vail Health Foundation
Balance at January 1, 2022	$ 3,469,500
Total unrealized losses	(488,148)
Balance at December 31, 2022	$ 2,981,352

Note 6 - Fair Value Measurements (Continued)

		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 7 - Investments

Investments reported at NAV consist of the following:

		December 31, 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute return funds	$	15,692	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 8 - Property and Equipment

Property and equipment are summarized as follows:

		2022		2021
Machinery and equipment	$	7,842,865	$	7,415,562
Furniture and fixtures		302,667		302,667
Computer equipment and software		825,998		824,593
Leasehold improvements		2,559,746		2,326,139
Construction in progress		-		10,067
Total cost		11,531,276		10,879,028
Less accumulated depreciation and amortization		10,095,004		9,541,959
Net property and equipment	$	1,436,272	$	1,337,069

Depreciation and amortization expense for 2022 and 2021 was $553,642 and $525,923, respectively.

Note 9 - Line of Credit

The Institute has a line of credit agreement with a bank with available borrowings of $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 (8.00 and 4.00 percent at December 31, 2022 and 2021, respectively). As of December 31, 2022 and 2021, there was no outstanding balance on the line of credit. The line of credit matures in May 2024.

Note 10 - Net Assets

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

	2022	2021
Subject to expenditures for a specified purpose:		
Center for Regenerative Sports Medicine	$ 1,516,376	$ 666,274
Center for Outcomes-Based Orthopaedic Research	100,000	43,660
Department of BioMedical Engineering	-	14,454
Regenerative Medicine Innovation Project	1,115,655	1,898,250
Total subject to expenditures for a specified purpose	2,732,031	2,622,638
Subject to the passage of time - Promises to give that are not restricted by donors but that are unavailable for expenditure until due	2,917,326	3,858,789
Endowments - Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
Clinical fellowship and international scholars education programs	3,000,000	3,469,500
Underwater portion of endowment	(18,648)	-
Total endowment	2,981,352	3,469,500
Total	$ 8,630,709	$ 9,950,927

Note 11 - Paycheck Protection Program Loans

During the year ended December 31, 2021, the Institute received a Paycheck Protection Program (PPP) loan in the amount of $1,074,660. 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 an organization has substantially overcome all measurable performance-related barriers necessary to be entitled to keep the grant funds. As of December 31, 2021, the Institute has assessed that all requirements for forgiveness were achieved and, therefore, has recorded grant revenue of $1,074,660, consistent with generally accepted accounting principles.

The Institute applied for and received notification from the SBA of forgiveness of the loan balance in its 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 loan 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.

Note 12 - Employee Retention Credit (Continued)

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 at December 31, 2021 and 2022.

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

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ -	$ 3,469,500	$ 3,469,500
Investment return	-	(488,148)	(488,148)
Endowment net assets - End of year	$ -	$ 2,981,352	$ 2,981,352

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

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of $3,000,000, a current fair value of $2,981,352, and a deficiency of $18,648 as of December 31, 2022. This deficiency resulted from unfavorable market fluctuations for invested donor-restricted endowment funds.

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 of 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 $164,905 and $135,171 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 of approximately $3,400,000. The balance outstanding on the related party contribution receivable as of December 31, 2022 and 2021 was $2,928,830 and $3,858,489, net of discount, respectively.

Note 15 - Related Party Transactions (Continued)

Accounts Receivable/Payable

At December 31, 2022 and 2021, the Institute had accounts receivable from the Clinic totaling $276,305 and $0, respectively. At December 31, 2022 and 2021, the Institute had accounts payable to the Clinic totaling $33,583 and $38,111, respectively.

At December 31, 2022 and 2021, the Institute had accounts payable to other related parties totaling $370,376 and $9,740, respectively.

Contributions

For the years ended December 31, 2022 and 2021, the Institute received approximately $900,000 and $825,000, respectively, in contributions from employees and medical staff at the Clinic. In addition, contributions from board members totaled approximately $124,000 and $1,524,000 during the years ended December 31, 2022 and 2021, respectively. There are two physicians of the Clinic who are board members of the Institute.

Leases

The Institute received $723,000 from the Clinic during both 2022 and 2021 for the lease of equipment.

Lease expense recognized by the Institute for leases with a related party (see Note 16) totaled $435,420 and $460,562 during 2022 and 2021, respectively.

Note 16 - Leases

The Institute is obligated under operating leases primarily for facilities and equipment, expiring at various dates through April 2037. One of the facility leases includes an option to extend for 15 years, which is reasonably certain to be exercised. One of these leases is with a related party. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 1.04 percent to 2.44 percent. The leases require the Institute to pay taxes, insurance, utilities, and maintenance costs.

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

Years Ending December 31	Amount
2023	$ 552,866
2024	435,827
2025	372,913
2026	377,589
2027	379,887
Thereafter	2,052,624
Total	4,171,706
Less amount representing interest	457,607
Present value of net minimum lease payments	3,714,099
Less current obligations	487,476
Long-term obligations under leases	$ 3,226,623

Note 16 - Leases (Continued)

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

Lease cost:		
Operating lease cost	$	573,307
Short-term lease cost		98,096
Variable lease cost		131,709
Total lease cost	$	803,112
Other information:		
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	$	473,777
Weighted-average remaining lease term - Operating leases		10.67 years
Weighted-average discount rate - Operating leases		1.9 %

Total rent expense under leases was $1,015,949 for 2021.

Note 17 - Income Taxes

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

	2022	2021
Deferred:		
Federal	$ 43,069	$ -
State	9,056	-
Total	$ 52,125	$ -

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