STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2017 and 2016

EKS&H

STEADMAN PHILIPPON RESEARCH INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Steadman Philippon Research Institute
Vail, Colorado

We have audited the accompanying consolidated financial statements of Steadman Philippon Research Institute, which are comprised of the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, 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.

AUDITORS' 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 audit 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 auditors' 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 auditors consider 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Denver, Colorado
June 27, 2018

STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Statements of Financial Position

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 2,334,791	$ 2,370,072
Accounts receivable	58,355	96,157
Accounts receivable, related party	245,836	69,224
Contributions receivable, current portion	1,694,084	1,195,000
Prepaid expenses and other assets	103,605	100,400
Investments	178,130	272,384
Total current assets	4,614,801	4,103,237
Contributions receivable, less current portion	6,800,411	7,459,888
Property and equipment, net	876,480	842,740
Investments, other	227,050	227,050
Total assets	$ 12,518,742	$ 12,632,915
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 126,663	$ 130,552
Accrued expenses	616,327	424,386
Line-of-credit	1,273,800	1,273,800
Deferred revenue	10,000	10,000
Deferred tax liability	36,249	10,812
Current portion of note payable	145,764	129,016
Total current liabilities	2,208,803	1,978,566
Long-term liabilities		
Note payable, less current portion	351,212	486,008
Total liabilities	2,560,015	2,464,574
Commitments		
Net assets		
Unrestricted	1,464,232	1,513,453
Temporarily restricted	8,494,495	8,654,888
Total net assets	9,958,727	10,168,341
Total liabilities and net assets	$ 12,518,742	$ 12,632,915

See notes to consolidated financial statements.

STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Statements of Activities

	For the Years Ended					
	December 31, 2017			December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support						
Grants and corporate partners	$ 4,254,815	$ 830,261	$ 5,085,076	$ 4,391,045	$ 1,206,807	$ 5,597,852
Contributions	1,249,140	2,533,819	3,782,959	1,371,581	592,810	1,964,391
Fundraising events	272,467	-	272,467	210,002	-	210,002
MRI income	723,000	-	723,000	723,000	-	723,000
In-kind contributions	1,112,284	-	1,112,284	131,198	-	131,198
Other income	17,200	-	17,200	2,924	-	2,924
	7,628,906	3,364,080	10,992,986	6,829,750	1,799,617	8,629,367
Net assets released from restrictions	3,524,473	(3,524,473)	-	2,641,988	(2,641,988)	-
Total revenues, gains, and other support	11,153,379	(160,393)	10,992,986	9,471,738	(842,371)	8,629,367
Operating expenses						
Center for Regenerative Sports Medicine	2,857,060	-	2,857,060	2,584,495	-	2,584,495
Department of BioMedical Engineering	1,196,449	-	1,196,449	979,484	-	979,484
Surgical Skills Laboratory	1,540,068	-	1,540,068	490,395	-	490,395
Center for Outcomes-Based Orthopaedic Research	1,111,650	-	1,111,650	968,365	-	968,365
Education department	765,644	-	765,644	598,217	-	598,217
Department of Technology & Communications	360,478	-	360,478	283,632	-	283,632
Imaging research	319,921	-	319,921	354,919	-	354,919
General and administrative	1,306,039	-	1,306,039	1,206,607	-	1,206,607
Development	1,711,608	-	1,711,608	1,516,501	-	1,516,501
Total operating expenses	11,168,917	-	11,168,917	8,982,615	-	8,982,615
Other (income) expenses						
Investment (return) loss	(52,142)	-	(52,142)	9,993	-	9,993
Interest expense	77,371	-	77,371	70,520	-	70,520
Total other expenses	25,229	-	25,229	80,513	-	80,513
Provision for income tax expense	(8,454)	-	(8,454)	(30,446)	-	(30,446)
Change in net assets	(49,221)	(160,393)	(209,614)	378,164	(842,371)	(464,207)
Net assets at beginning of year	1,513,453	8,654,888	10,168,341	1,135,289	9,497,259	10,632,548
Net assets at end of year	$ 1,464,232	$ 8,494,495	$ 9,958,727	$ 1,513,453	$ 8,654,888	$ 10,168,341

See notes to consolidated financial statements.

STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2017

	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 & Communications	Imaging Research	Total Program Services	General and Administrative	Development	Total
Salaries and benefits	$ 644,348	$ 523,061	$ 86,775	$ 944,720	$ 506,191	$ 258,304	$ 130,721	$ 3,094,120	$ 1,022,412	$ 395,860	$ 4,512,392
Consulting and contract labor	783,731	125,000	-	17,566	-	15,400	42,591	984,288	44,989	188,997	1,218,274
Supplies (office, computer, lab)	335,619	201,777	1,363,780	36,335	8,009	27,279	3,747	1,976,546	68,096	30,505	2,075,147
Events and fundraising	375	-	-	-	-	-	-	375	-	211,985	212,360
Printing	5,885	9,282	366	5,920	1,875	796	617	24,741	1,151	62,085	87,977
Maintenance and supplies	50,295	21,564	18,467	6,079	5,811	5,591	5,770	113,577	14,828	5,736	134,141
Rent and leases	359,485	184,349	35,873	34,816	4,057	10,257	14,710	643,547	3,559	7,010	654,116
Telephone and utilities	66,448	38,806	27,140	23,273	2,923	11,066	11,408	181,064	23,543	5,497	210,104
Travel	198,128	25,190	684	8,364	64,042	1,158	6,677	304,243	2,033	39,191	345,467
Legal and accounting	70,996	21,866	1,417	21,613	31,574	3,482	3,460	154,408	27,447	6,497	188,352
Fellows	-	-	-	-	30,824	-	-	30,824	-	-	30,824
Education meetings/lectures	650	-	-	-	76,858	-	-	77,508	637	-	78,145
Direct mail/planned giving	-	-	-	-	-	-	-	-	-	89,430	89,430
Meals and entertainment	18,550	1,541	996	730	3,400	12	362	25,591	23,399	3,002	51,992
Gifts	-	-	-	300	-	38	-	338	4,715	6,365	11,418
Postage	2,533	1,641	629	1,609	1,091	534	84	8,121	685	7,107	15,913
Insurance	122	814	122	1,140	529	326	326	3,379	30,891	163	34,433
Fees, dues, and subscriptions	6,048	779	-	4,849	22,452	2,583	685	37,396	10,624	10,961	58,981
Bank/credit card fees	1,702	-	384	16	-	-	-	2,102	565	5,766	8,433
Meetings (Board and SAC)	39,217	-	-	-	-	-	-	39,217	5,332	-	44,549
Scientific summit	256,145	-	-	-	-	-	-	256,145	-	-	256,145
Research grant	887	-	-	-	-	-	-	887	-	-	887
Marketing	327	429	14	3,094	5,737	43	58	9,702	6,593	631,922	648,217
	2,841,491	1,156,099	1,536,647	1,110,424	765,373	336,869	221,216	7,968,119	1,291,499	1,708,079	10,967,697
Depreciation and amortization	15,569	40,350	3,421	1,226	271	23,609	98,705	183,151	14,540	3,529	201,220
Total operating expenses	2,857,060	1,196,449	1,540,068	1,111,650	765,644	360,478	319,921	8,151,270	1,306,039	1,711,608	11,168,917
For management reporting:											
Allocation of overhead to programs	850,465	345,302	460,994	328,622	225,913	96,174	65,896	2,373,366	(1,022,193)	(1,351,173)	-
Total including overhead allocation	$ 3,707,525	$ 1,541,751	$ 2,001,062	$ 1,440,272	$ 991,557	$ 456,652	$ 385,817	$ 10,524,636	$ 283,846	$ 360,435	$ 11,168,917

See notes to consolidated financial statements.

STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	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 & Communications	Imaging Research	Total Program Services	General and Administrative	Development	Total
Salaries and benefits	$ 786,045	$ 484,482	$ 60,429	$ 777,131	$ 397,594	$ 209,603	$ 170,407	$ 2,885,691	$ 888,582	$ 286,716	$ 4,060,989
Consulting and contract labor	692,117	68,501	450	12,950	360	-	85,787	860,165	111,530	174,777	1,146,472
Supplies (office, computer, lab)	190,080	237,786	212,338	36,561	8,070	8,904	5,298	699,037	12,990	31,482	743,509
Events and fundraising	-	-	-	-	-	-	-	-	-	189,483	189,483
Printing	445	20,065	356	4,020	1,550	959	755	28,150	1,304	77,024	106,478
Maintenance and supplies	24,166	8,953	22,018	6,037	4,570	4,664	4,480	74,888	5,554	601	81,043
Rent and leases	310,456	13,485	22,835	43,422	5,131	10,179	9,177	414,685	4,106	4,730	423,521
Telephone and utilities	58,310	17,159	33,027	16,287	6,506	14,070	11,662	157,021	22,541	8,772	188,334
Travel	134,705	22,181	150	21,713	32,274	820	10,441	222,284	442	7,500	230,226
Legal and accounting	102,453	12,879	1,436	41,525	31,669	3,663	4,768	198,393	117,270	30,346	346,009
Fellows	-	-	-	-	37,119	-	-	37,119	-	-	37,119
Education meetings/lectures	-	-	-	-	38,462	-	-	38,462	-	-	38,462
Direct mail/planned giving	-	-	-	-	-	-	-	-	-	133,388	133,388
Meals and entertainment	18,373	948	46	1,244	3,941	47	245	24,844	4,057	1,225	30,126
Gifts	365	-	-	-	-	-	-	365	176	635	1,176
Postage	5,376	1,675	447	2,297	1,197	598	(565)	11,025	1,145	2,784	14,954
Insurance	212	1,411	212	1,975	917	564	564	5,855	26,249	282	32,386
Fees, dues, and subscriptions	8,359	3,231	-	2,437	28,857	-	2,203	45,087	1,169	357	46,613
Bank/credit card fees	395	-	(506)	-	-	-	-	(111)	1,270	6,850	8,009
Meetings (Board and SAC)	51,345	-	-	-	-	-	-	51,345	7,701	-	59,046
Scientific summit	184,076	-	-	-	-	-	-	184,076	-	-	184,076
Research grant	5,220	-	-	-	-	-	-	5,220	-	-	5,220
Marketing	-	4,170	-	-	-	-	-	4,170	-	557,784	561,954
	2,572,498	896,926	353,238	967,599	598,217	254,071	305,222	5,947,771	1,206,086	1,514,736	8,668,593
Depreciation and amortization	11,997	82,558	137,157	766	-	29,561	49,697	311,736	521	1,765	314,022
Total operating expenses	2,584,495	979,484	490,395	968,365	598,217	283,632	354,919	6,259,507	1,206,607	1,516,501	8,982,615
For management reporting:											
Allocation of overhead to programs	771,734	268,965	105,956	290,120	179,412	76,181	91,552	1,783,920	(642,879)	(1,141,041)	-
Total including overhead allocation	$ 3,356,229	$ 1,248,449	$ 596,351	$ 1,258,485	$ 777,629	$ 359,813	$ 446,471	$ 8,043,427	$ 563,728	$ 375,460	$ 8,982,615

See notes to consolidated financial statements.

STEADMAN PHILIPPON RESEARCH INSTITUTE

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2017	2016
Cash flows from operating activities		
Change in net assets	$ (209,614)	$ (464,207)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	201,220	314,022
Net (gain) loss on investments	(52,142)	9,993
Deferred taxes	25,437	13,463
Changes in assets and liabilities		
Accounts receivable	37,802	(62,797)
Accounts receivable, related party	(176,612)	(18,790)
Contributions receivable	160,393	602,134
Prepaid expenses and other assets	(3,205)	26,693
Accounts payable	(3,889)	314
Accrued expenses	191,941	302,539
Deferred revenue	-	10,000
	380,945	1,197,571
Net cash provided by operating activities	171,331	733,364
Cash flows from investing activities		
Proceeds from sale of investments	146,396	1,867,265
Purchases of property and equipment	(234,960)	(103,706)
Net cash (used in) provided by investing activities	(88,564)	1,763,559
Cash flows from financing activities		
Payments on note payable	(118,048)	(72,689)
Net payments on line-of-credit	-	(152,000)
Net cash used in financing activities	(118,048)	(224,689)
Net (decrease) increase in cash and cash equivalents	(35,281)	2,272,234
Cash and cash equivalents at beginning of year	2,370,072	97,838
Cash and cash equivalents at end of year	$ 2,334,791	$ 2,370,072

Supplemental disclosure of cash flow information:

Cash paid for interest was $77,371 and $70,520 for the years ended December 31, 2017 and 2016, respectively.

Supplemental disclosure of non-cash activity:

During the year ended December 31, 2016, the Institute financed $687,713 of equipment additions through a note payable.

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Steadman Philippon Research Institute ("SPRI"), a non-profit 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 its 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 is fortunate to draw upon the talents of respected members of local, national, and international communities with business, medical, and scientific backgrounds who all share a common interest in keeping people active. SPRI is recognized globally for its pioneering research in osteoarthritis, healing, surgery, and injury prevention and rehabilitation. Since 1993, SPRI's database (one of the largest in existence) has been collecting the patient information that has led to significant treatment advances in these areas.

SPRI's Center for Regenerative Sports Medicine has a primary focus to identify, characterize, and clinically translate the use of adult stem cells in the treatment of a variety of musculoskeletal tissues after injuries, disease, and aging. The Center for Regenerative Sports Medicine is comprised of an internationally diverse group of investigators that apply a large battery of techniques to isolate, characterize, and clinically model the use of muscle-derived cells.

SPRI's Department of BioMedical Engineering is a multidisciplinary laboratory that applies quantitative, analytical, and integrative methods to the field of orthopaedic medicine. The multitalented research staff integrates clinical care, research, and education with the resources of world-renowned medical doctors in order to improve the treatment of musculoskeletal diseases. This focused approach is designed to maintain and enhance athletic performance, health, and quality of life for professional, semi-professional, collegiate, high school, and recreationally active individuals through an emphasis of bench to bedside research. The programs provided by the Department of BioMedical Engineering are unique and diverse and they encompass a complete range of services for the physically active or those wishing to return to an active lifestyle after injury.

SPRI's outcomes-based orthopaedic research ("outcomes research") has been defined as the study of the end results of medical treatment, which is intended to provide scientific evidence to support patient and physician decisions regarding medical treatment. SPRI's outcomes research is based on physician/patient assessment of improvement in function, quality of life, and patient satisfaction. Outcomes research provides a tool to link the patient's perspective to the effectiveness of health treatment. This allows for increased participation by patients in the decision-making process regarding the kind of care they desire. The goal in outcomes research is to learn from patients and validate treatment protocols in an effort to improve the quality of health care for every patient.

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

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The reporting entity referred to as Steadman Philippon Research Institute and Subsidiary (collectively, the "Institute") includes the accounts of SPRI and SPRI Leasing Corporation. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors ("Board") for use in the Institute's operations, fundraising, and certain programs.

Temporarily restricted amounts are monies restricted by donors specifically for certain purposes or programs; these monies are available for use by the Institute for the restricted purpose.

Permanently restricted amounts are assets that must be maintained permanently by the Institute as required by the donor, but the Institute is permitted to use or expend part or all of any income derived from those assets. As of December 31, 2017 and 2016, the Institute did not have any permanently restricted amounts.

Cash and Cash Equivalents

The Institute considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered. As of the date of the statement of financial position and periodically throughout the year, the Institute maintained balances in various operating accounts in excess of federally insured limits.

Accounts and Contributions Receivable

Accounts and contributions receivable represent amounts due from individuals and organizations in support of the Institute's programs. Management considers all amounts collectible; therefore, no allowance has been recorded as of December 31, 2017 and 2016.

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 revenue.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Investments

The Institute holds alternative investments, which are not readily marketable and are carried at fair value as provided by the investment managers. The Institute reviews and evaluates the value provided by the investment managers and agrees with the valuation methods and assumptions used in determining the value of the alternative investments. Those estimated values may differ significantly from the values that would have been used had a ready market for these securities existed. Net asset value ("NAV") 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 statements of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Leasehold improvements and equipment purchased by the Institute are recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the lease term plus renewal options or the estimated useful lives of the improvements.

Other Investment

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 2017 or 2016.

Contributions

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

Gifts of land, buildings, equipment, and other long-lived assets are reported as unrestricted support unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted support. Absent explicit donor stipulations for the time that long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

MRI and other income are recognized at the time the services are provided.

SPRI has agreements with several corporations that sponsor SPRI's research. This research is for the general use of and publication by SPRI. These agreements are recorded as income in the year the research is performed.

Functional Expenses

Expenses incurred directly for a program service are charged to such program. Allocations of certain overhead costs are also allocated to programs on a pro rata basis of total space occupied by each service or by headcount.

Income Taxes

SPRI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). SPRI is not a private foundation within the meaning of Section 509(a) of the IRC.

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.

The Institute applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2017 and 2016. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No interest or penalties have been assessed for the years ended December 31, 2017 or 2016.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. This law substantially amended the IRC, including reducing the U.S. corporate tax rate to 21% starting January 1, 2018. Upon enactment, the Institute's deferred tax liability increased by $3,473 to $36,249. This change in rate resulted in $3,473 of additional tax expense for the year ended December 31, 2017.

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 disclosures of contingent assets and liabilities at the date of theconsolidated financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue when it transfers promised 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 guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU No. 2014-09 is effective for annual reporting in fiscal years that begin after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amended the FASB Accounting Standards Codification ("ASC") and created Topic 842, *Leases*. The new topic supersedes ASC Topic 840, *Leases*, and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2019. ASU No. 2016-02 mandates a modified retrospective transition method.

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the consolidated financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

The Institute is currently evaluating the new standards and their impact on the Institute's consolidated financial statements.

Subsequent Events

The Institute has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following:

	December 31, 2017	December 31, 2016
Investments reported at NAV	$ 178,130	$ 234,735
Distributions receivable	-	37,649
	$ 178,130	$ 272,384

Investments in certain entities that calculate NAV per share are as follows:

Fund Description	December 31, 2017 NAV	December 31, 2016 NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Funds	$ 178,130	$ 234,735	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. The fair value of the investments has been calculated using the NAV per share of the investments.

As of December 31, 2017 and 2016, investment return consists of net realized and unrealized gain (loss) of $52,142 and $(9,993), respectively.

Note 3 - Contributions

Contributions receivable consist of the following:

	December 31, 2017	December 31, 2016
Due in less than one year	$ 1,694,084	$ 1,195,000
Due in one to five years	5,450,000	5,285,000
Due in over five years	2,000,000	3,000,000
	9,144,084	9,480,000
Less unamortized discount	(649,589)	(825,112)
	$ 8,494,495	$ 8,654,888

The discount rates used ranged from 2.40% to 2.45%.

Note 3 - Contributions (continued)

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

Note 4 - Property and Equipment

The Institute's property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Equipment	$ 458,613	$ 438,613
Furniture and fixtures	285,173	148,025
Leasehold improvements	2,222,660	2,157,569
Machines and video equipment	976,100	976,100
Medical equipment	5,002,079	4,989,359
	8,944,625	8,709,666
Less accumulated depreciation and amortization	(8,068,145)	(7,866,926)
	$ 876,480	$ 842,740

Note 5 - Line-of-Credit

The Institute has an unsecured line-of-credit with a bank available up to $1,500,000, which bears interest at the prime rate plus 0.50% with a floor of 3.75% (4.25% at December 31, 2017). As of December 31, 2017 and 2016, the outstanding balance was $1,273,800. The line-of-credit matured in March 2018 and was subsequently renewed with a maturity date of March 2021.

Note 6 - Long-Term Debt

Long-term debt consists of the following:

	December 31, 2017	December 31, 2016
Note payable to a finance company due April 2021 requiring monthly payments of $12,787. The note accrues interest at 4.39% and is collateralized by equipment.	$ 496,976	$ 615,024
Less current portion	(145,764)	(129,016)
Long-term portion of debt	$ 351,212	$ 486,008

Note 6 - Long-Term Debt (continued)

Maturities of the note payable are as follows:

For the Year Ending December 31,		
2018	$	145,764
2019		140,833
2020		147,142
2021		63,237
	$	496,976

Note 7 - Retirement Plan

The Institute has a defined contribution retirement plan (the "Plan") under IRC Section 401(k). Employees are eligible to participate in the Plan after one year of service. The Institute's contributions to the Plan are determined annually. The Institute contributed $37,417 and $31,552 to the Plan in fiscal years 2017 and 2016, respectively.

Note 8 - Temporarily Restricted Net Assets

The temporarily restricted net assets that have been restricted by the donors to be used only for specified purposes and/or are time restricted until payments on contributions receivable are received are as follows:

	December 31, 2017	December 31, 2016
Assets available in future periods		
Center for Regenerative Sports Medicine	$ 777,005	$ 292,883
Center for Outcomes-Based Orthopaedic Research	74,531	49,402
Department of BioMedical Engineering	281,467	77,176
Education department	-	50,000
Time restricted only	7,361,492	8,185,427
Total contributions receivable	8,494,495	8,654,888
	$ 8,494,495	$ 8,654,888

Note 9 - Related Party Transactions

During 2017 and 2016, the Institute received approximately $1,796,000 and $1,596,000, 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.

The Institute entered into a contribution agreement as well as a lease commitment with an organization whose board chairman, 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, 2017 and 2016 of approximately $4,300,000.

In addition, the Institute received $723,000 from the Clinic during both 2017 and 2016, as a corporate sponsor and for the use of certain equipment. The balance due from the Clinic totaled $245,836 and $69,224 as of December 31, 2017 and 2016, respectively.

See Note 11 for additional related party transactions.

Note 10 - Income Taxes

Income tax expense has been computed at the statutory rates applicable during the period. The components of taxes on income are approximately as follows:

	For the Years Ended December 31, 2017	For the Years Ended December 31, 2016
Current		
Federal	$ (13,408)	$ 13,408
State	(3,575)	3,575
	(16,983)	16,983
Deferred		
Federal	21,278	11,187
State	4,159	2,276
	25,437	13,463
	$ 8,454	$ 30,446

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.

Note 11 - Commitments

Operating Leases

The Institute leases facilities under non-cancelable operating leases with a related party, which calls for both base rent payments and operating expenses. The leases expire through 2026. The Institute also leases other facilities and equipment under non-cancelable operating leases with non-related parties, expiring through April 2023. Rent under these leases for the years ended December 31, 2017 and 2016 was $852,003 and $593,002, respectively. Of these amounts, $337,257 and $252,818 for the years ended December 31, 2017 and 2016, respectively, were with a related party.

Future minimum lease payments under these leases are approximately as follows:

For the Year Ending December 31,	
2018	$ 850,000
2019	877,000
2020	877,000
2021	723,000
2022	548,000
Thereafter	1,205,000
	$ 5,080,000

Research Collaboration

In 2015, the Institute signed an agreement in which $7,500,000 was committed to a research collaboration over a period of five years to pay for laboratory space, staff support, researchers' salaries, equipment, and other related expenses incurred by the research collaboration. The remaining commitment as of December 31, 2017 was approximately $450,000.