Steadman Philippon Research Institute

Consolidated Financial Report

December 31, 2020

Contents

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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, 2020 and 2019 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, 2020 and 2019 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.

Plante & Moran, PLLC

June 15, 2021

Consolidated Statement of Financial Position

December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 3,877,995	$ 1,826,787
Accounts receivable	323,636	1,065,637
Accounts receivable - Related party	83,517	-
Contributions receivable - Current portion	1,000,000	2,010,000
Prepaid expenses and other assets	156,465	215,906
Investments	265,021	93,227
Total current assets	5,706,634	5,211,557
Net Contributions Receivable - Less current portion	3,766,510	4,652,523
Deferred Tax Asset	136,693	-
Property and Equipment - Net	1,792,435	1,345,827
Investments - Other	227,050	227,050
Amounts Held at Vail Health Foundation	2,287,268	2,119,821
Total assets	**$ 13,916,590**	**$ 13,556,778**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 378,042	$ 543,450
Accounts payable - Related parties	-	329,395
Accrued payroll-related expenses	973,765	693,910
Current portion of note payable	63,283	147,142
Total current liabilities	1,415,090	1,713,897
Note Payable - Less current portion	-	63,237
Deferred Tax Liability	-	1,523
Total liabilities	1,415,090	1,778,657
Net Assets		
Without donor restrictions	2,639,242	2,343,978
With donor restrictions	9,862,258	9,434,143
Total net assets	12,501,500	11,778,121
Total liabilities and net assets	**$ 13,916,590**	**$ 13,556,778**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Grants and corporate partners	$ 4,331,105	$ 476,984	$ 4,808,089	$ 4,954,025	$ 37,695	$ 4,991,720
Contributions	1,694,690	3,713,089	5,407,779	801,062	4,520,999	5,322,061
Government grants	2,146,936	-	2,146,936	-	-	-
Government contracts	1,291,668	-	1,291,668	936,418	-	936,418
Fundraising events	187,425	4,425	191,850	127,450	245,961	373,411
MRI income	723,000	-	723,000	723,000	-	723,000
In-kind contributions	934,258	-	934,258	298,800	-	298,800
Other income	110,884	-	110,884	179,658	-	179,658
Investment return - Net	(5,970)	167,447	161,477	2,207	119,821	122,028
Net assets released from restrictions	3,933,830	(3,933,830)	-	6,890,431	(6,890,431)	-
Total revenue, gains, and other support	15,347,826	428,115	15,775,941	14,913,051	(1,965,955)	12,947,096
Expenses						
Center for Regenerative Sports Medicine	4,807,776	-	4,807,776	4,105,853	-	4,105,853
Department of BioMedical Engineering	1,893,118	-	1,893,118	1,761,902	-	1,761,902
Surgical Skills Laboratory	285,528	-	285,528	302,947	-	302,947
Center for Outcomes-Based Orthopaedic Research	1,396,272	-	1,396,272	1,286,788	-	1,286,788
Education department	674,825	-	674,825	724,244	-	724,244
Department of Technology and Communications	265,963	-	265,963	447,927	-	447,927
Imaging research	279,622	-	279,622	368,868	-	368,868
General and administrative	3,622,540	-	3,622,540	2,722,729	-	2,722,729
Development	1,965,134	-	1,965,134	1,792,158	-	1,792,158
Total expenses	15,190,778	-	15,190,778	13,513,416	-	13,513,416
Change in Net Assets - Before provision for income tax recovery (expense)	157,048	428,115	585,163	1,399,635	(1,965,955)	(566,320)
Provision for Income Tax Recovery (Expense)	138,216	-	138,216	(12,173)	-	(12,173)
Change in Net Assets	295,264	428,115	723,379	1,387,462	(1,965,955)	(578,493)
Net Assets - Beginning of year	2,343,978	9,434,143	11,778,121	956,516	11,400,098	12,356,614
Net Assets - End of year	**$ 2,639,242**	**$ 9,862,258**	**$ 12,501,500**	**$ 2,343,978**	**$ 9,434,143**	**$ 11,778,121**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services							Support Services		
	Center for Regenerative Sports Medicine	Department of BioMedical Engineering	Surgical Skills Laboratory	Center for Outcomes-Based Orthopaedic Research	Education Department	Department of Technology and Communications	Imaging Research	General and Administrative	Development	Total
Salaries and benefits	$ 2,450,646	$ 1,111,067	$ 71,529	$ 1,091,529	$ 340,440	$ 228,672	$ 153,101	$ 1,955,545	$ 646,218	$ 8,048,747
Supplies (office, computer, and lab)	559,993	348,455	58,789	9,688	184,409	21	465	58,858	4,091	1,224,769
Events and fundraising	492	-	-	-	40,990	9,513	-	187	118,332	169,514
Printing and postage	6,584	1,732	73	1,599	471	-	1,599	7,583	2,083	21,724
Maintenance and supplies	153,261	44,494	16,416	30,131	6,835	1,082	743	706,527	20,807	980,296
Rent and leases	371,639	189,434	36,269	63,615	3,085	6,290	17,127	42,439	7,571	737,469
Telephone and utilities	73,223	42,958	25,413	23,716	2,558	4,400	10,978	35,166	5,680	224,092
Travel	63,950	9,967	1,250	18,272	18,972	4,334	4,259	72,014	47,569	240,587
Professional fees	911,253	41,350	-	60,550	16,515	10,250	76,792	301,389	356,777	1,774,876
Fellows	-	-	-	-	5,700	-	-	-	-	5,700
Education meetings and lectures	6,673	-	-	-	15,086	-	-	1,774	995	24,528
Meals and entertainment	16,594	206	-	158	2,233	168	165	34,403	13,590	67,517
Marketing	-	-	-	-	-	-	-	12,428	727,721	740,149
Miscellaneous	75,672	45,504	662	43,563	36,962	1,233	14,393	236,991	12,246	467,226
Depreciation and amortization	117,796	57,951	75,127	53,451	569	-	-	150,892	1,454	457,240
Interest expense	-	-	-	-	-	-	-	6,344	-	6,344
Total functional expenses	**$ 4,807,776**	**$ 1,893,118**	**$ 285,528**	**$ 1,396,272**	**$ 674,825**	**$ 265,963**	**$ 279,622**	**$ 3,622,540**	**$ 1,965,134**	**$ 15,190,778**

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**

Consolidated Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 723,379	$ (578,493)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization expense	457,240	255,528
Investment return	(161,477)	(122,028)
Endowment contributions	-	(26,195)
Deferred taxes	(138,216)	12,173
Donated stock	(177,764)	-
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts receivable	742,001	(754,770)
Accounts receivable - Related party	(83,517)	-
Contributions receivable	1,896,013	2,778,368
Prepaid expenses and other assets	59,441	(102,065)
Accounts payable	(165,408)	370,206
Accounts payable - Related party	(329,395)	139,211
Accrued expenses	279,855	(2,840)
Net cash and cash equivalents provided by operating activities	3,102,152	1,969,095
Cash Flows from Investing Activities		
Purchases of property and equipment	(903,848)	(809,727)
Transfers to Vail Health Foundation	-	(1,000,000)
Proceeds from sale of investments	-	54,320
Net cash and cash equivalents used in investing activities	(903,848)	(1,755,407)
Cash Flows from Financing Activities		
Payments on note payable	(147,096)	(140,833)
Endowment contributions	-	26,195
Net cash and cash equivalents used in financing activities	(147,096)	(114,638)
Net Increase in Cash and Cash Equivalents	2,051,208	99,050
Cash and Cash Equivalents - Beginning of year	1,826,787	1,727,737
Cash and Cash Equivalents - End of year	**$ 3,877,995**	**$ 1,826,787**
Supplemental Cash Flow Information - Cash paid for interest	$ 6,344	$ 18,808

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 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 or promoting healthy aging. Led by an internationally diverse team of scientists and researchers, CRSM conducts basic science studies, preclinical trials, and clinical trials, all of which are compliant with federal guidelines.

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

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

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

Note 2 - Significant Accounting Policies

Principles of Consolidation

The 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.

Classification of Net Assets

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

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Institute.

Note 2 - Significant Accounting Policies (Continued)

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Institute or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

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

Change in Economic Environment

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations.

While the Institute’s changes in net assets, cash flows, and financial condition were not significantly impacted, the extent of any future impact cannot be reasonably estimated at this time.

During the year ended December 31, 2020, the Institute received a Paycheck Protection Program (PPP) loan in the amount of $1,330,865. 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. The Institute may use the funds on qualifying expenses over a covered period up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the SBA will be repaid over a period of two years, with interest accruing at a rate of 1 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period.

Any request for forgiveness is subject to review and approval by the lender and the SBA, including review of qualifying expenditures and staffing and salary levels.

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

The Institute applied for and received notification from the SBA of forgiveness of the entire loan on January 8, 2021. Although management considers it probable that the Institute was initially eligible for the loan and subsequent forgiveness, the SBA has the ability to review the Institute’s loan file for a period subsequent to the date the loan was forgiven and could request additional documentation to support the Institute’s initial eligibility for the loan 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.

Subsequent to year end, the Institute received an additional PPP loan in the amount of $1,074,660.

Note 2 - Significant Accounting Policies (Continued)

Cash Equivalents

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

Accounts and Contributions Receivable

Accounts and contributions receivable represent amounts due from individuals and organizations in support of the Institute's programs. Management considers all amounts collectible; therefore, no allowance has been recorded as of December 31, 2020 and 2019.

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

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.

Note 2 - Significant Accounting Policies (Continued)

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 2020 or 2019.

Contributions, Grants and Corporate Partners

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

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

A portion of the Institute's revenue is derived from cost-reimbursable federal and other contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Institute has incurred expenditures in compliance with specific contract or grant provisions. The Institute received cost-reimbursable grants of $587,119 and $781,816 that have not been recognized at December 31, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

Revenue Recognition

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, 2020 and 2019, respectively.

Government Contracts

In 2019, the Institute entered into a government contract to conduct research related to polytraumatic injuries. The research produced is for the sole benefit for the government entity in exchange for research funding. Revenue is recognized over time, as the Institute has the right to invoice based on performance to date. Invoices are submitted monthly and are due within 30 days of receipt. Grant revenue recognized over time for the years ended December 31, 2020 and 2019 was $1,291,668 and $936,418, respectively.

Note 2 - Significant Accounting Policies (Continued)

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, 2020 and 2019 was $191,850 and $373,411, respectively.

Other Information

The opening balance of accounts receivable related to contracts with customers as of January 1, 2020 and 2019 was $1,065,637 and $310,867, respectively.

Total revenue recognized from contracts with customers for the years ended December 31, 2020 and 2019 was $2,206,518 and $2,032,829, 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, 2020 and 2019, 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 Pronouncements

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

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions charities and other not-for-profit organizations receive, known as gifts-in-kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Institute's year ending June 30, 2022 and will be applied using the retrospective method.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including June 15, 2021, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity

The Institute has $5,550,169 and $4,995,651 of financial assets available within one year of December 31, 2020 and 2019 to meet cash needs for general expenditure consisting of cash of $3,877,995 and $1,826,787, contributions receivable of $1,000,000 and $2,010,000, accounts receivable of $407,153 and $1,065,637, and short-term investments of $265,021 and $93,227, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

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

Note 4 - Contributions

Contributions receivable consist of the following:

	2020	2019
Amounts due in:		
Less than one year	$ 1,000,000	$ 2,010,000
One to five years	4,000,000	4,000,000
More than five years	-	1,000,000
Less unamortized discount	(233,490)	(347,477)
Total	$ 4,766,510	$ 6,662,523

The discount rates used ranged from 2.45 percent to 2.69 percent for December 31, 2020 and 2019.

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

Note 5 - Fair Value Measurements

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

The following tables present information about the Institute's assets measured at fair value on a recurring basis at December 31, 2020 and 2019 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.

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.

Note 5 - Fair Value Measurements (Continued)

In instances where 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, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Assets - Amounts held at Vail Health Foundation	$ -	$ -	$ 2,287,268	$ 2,287,268
Investments measured at NAV - Absolute return funds				79,550
Total assets				$ 2,366,818

	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

The Institute holds cash equivalents totaling $185,471 and $0 at December 31, 2020 and 2019, respectively, which are not subject to fair value classification.

Note 6 - Investments

Investments reported at NAV consist of the following:

	December 31, 2020	December 31, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Funds	$ 79,550	$ 93,227	None	Quarterly to Annually	45 to 90 Days

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

Note 7 - Property and Equipment

Property and equipment are summarized as follows:

	2020	2019
Machinery and equipment	$ 1,059,322	$ 1,059,322
Transportation equipment	6,295,750	5,311,392
Furniture and fixtures	302,667	302,667
Computer equipment and software	824,593	814,001
Leasehold improvements	2,326,139	2,326,139
Construction in progress	-	91,101
Total cost	10,808,471	9,904,622
Less accumulated depreciation and amortization	9,016,036	8,558,795
Net property and equipment	$ 1,792,435	$ 1,345,827

Note 8 - Line of Credit

The Institute has a line of credit agreement with a bank with available borrowings of approximately $1,500,000. Interest is payable monthly at a rate of 0.50 percent above the prime rate, with a floor of 4.25 percent (4.25 and 5.25 percent at December 31, 2020 and 2019, respectively). As of December 31, 2020 and 2019, there was no outstanding balance on the line of credit. The line of credit matures in May 2024.

Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2020	2019
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	$ 63,283	$ 210,379
Less current portion	63,283	147,142
Long-term portion	$ -	$ 63,237

The balance of the above debt matures as follows:

Year Ending	Amount
2021	$ 63,283

Note 10 - Net Assets

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

	2020	2019
Subject to expenditures for a specified purpose:		
Center for Regenerative Sports Medicine	$ 2,604,295	$ 451,740
Department of BioMedical Engineering	200,059	200,059
Education	4,126	-
Total subject to expenditures for a specified purpose	2,808,480	651,799
Subject to the passage of time - Promises to give that are not restricted by donors but which are unavailable for expenditure until due	4,766,510	6,662,523
Endowments - Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation - Clinical fellowship and international scholars education programs	2,287,268	2,119,821
Total	$ 9,862,258	$ 9,434,143

Note 11 - Endowment

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

Interpretation of Relevant Law

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

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

Note 11 - Endowment (Continued)

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

	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

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 $109,548 and $60,477 for the years ended December 31, 2020 and 2019, 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 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, 2020 and 2019 of approximately $3,300,000. The balance outstanding on the related party contribution receivable as of December 31, 2020 and 2019 was $4,766,510 and $5,652,523, net of discount, respectively.

Note 13 - Related Party Transactions (Continued)

Accounts Receivable/Payable

At December 31, 2020 and 2019, the Institute had accounts receivable from the Clinic totaling $83,517 and $0, respectively. At December 31, 2020 and 2019, the Institute had accounts payable to the Clinic totaling $0 and $329,395, respectively.

Contributions

For the years ended December 31, 2020 and 2019, the Institute received approximately $783,000 and $700,000, respectively, in contributions from employees and medical staff at the Clinic. In addition, contributions from board members totaled approximately $1,576,000 and $1,060,000 during the years ended December 31, 2020 and 2019, respectively. There are two physicians of the Clinic who are board members of the Institute.

In addition, the Institute received $723,000 from the Clinic during both 2020 and 2019 as a corporate sponsor and for the use of certain equipment.

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 2036. 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 $927,571 and $882,094 for 2020 and 2019, respectively. Of these amounts, $460,562 for the years ended December 31, 2020 and 2019 was with a related party.

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

Years Ending December 31	Amount
2021	$ 766,708
2022	1,492,907
2023	1,290,113
2024	1,314,331
2025	1,339,154
Thereafter	13,344,084
Total	$ 19,547,297

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 (recovery) expense on income are approximately as follows:

	2020	2019
Deferred:		
Federal	$ (114,403)	$ 9,887
State	(23,813)	2,286
Total	$ (138,216)	$ 12,173

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.