Steadman Philippon Research Institute

Consolidated Financial Report

December 31, 2018

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, 2018 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 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, 2018 and the results of its activities and changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Financial Statements

The consolidated financial statements of Steadman Philippon Research Institute as of and for the year ended December 31, 2017 were audited by EKS&H LLLP, whose report dated June 27, 2018 expressed an unqualified opinion on those statements.

To the Board of Directors
Steadman Philippon Research Institute

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, Steadman Philippon Research Institute adopted the provisions under the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

July 15, 2019

Consolidated Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 1,727,737	$ 2,334,791
Accounts receivable	310,867	58,355
Accounts receivable - Related party	-	245,836
Contributions receivable - Current portion	2,940,000	1,694,084
Prepaid expenses and other assets	113,841	103,605
Investments	145,340	178,130
Total current assets	5,237,785	4,614,801
Net Contributions Receivable - Less current portion	6,500,891	6,800,411
Deferred Tax Asset	10,650	-
Property and Equipment - Net	791,628	876,480
Investments - Other	227,050	227,050
Amounts Held at Vail Health Foundation	1,000,000	-
Total assets	**$ 13,768,004**	**$ 12,518,742**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 173,244	$ 126,663
Accounts payable - Related party	190,184	-
Accrued expenses	696,750	616,327
Line of credit	-	1,273,800
Deferred revenue	-	10,000
Deferred tax liability	-	36,249
Current portion of note payable	140,833	145,764
Total current liabilities	1,201,011	2,208,803
Note Payable - Less current portion	210,379	351,212
Total liabilities	1,411,390	2,560,015
Net Assets		
Net assets without donor restrictions	956,516	1,464,232
Net assets with donor restrictions	11,400,098	8,494,495
Total net assets	12,356,614	9,958,727
Total liabilities and net assets	**$ 13,768,004**	**$ 12,518,742**

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Grants and corporate partners	$ 4,648,549	$ 597,768	$ 5,246,317	$ 4,254,815	$ 830,261	$ 5,085,076
Contributions	1,048,766	5,650,144	6,698,910	1,249,140	2,533,819	3,782,959
Fundraising events	733,233	103,062	836,295	272,467	-	272,467
MRI income	723,000	-	723,000	723,000	-	723,000
In-kind contributions	503,020	-	503,020	1,112,284	-	1,112,284
Other income	108,835	-	108,835	17,200	-	17,200
Investment (loss) return	(31,973)	-	(31,973)	52,142	-	52,142
Net assets released from restrictions	3,445,371	(3,445,371)	-	3,524,473	(3,524,473)	-
Total revenue, gains, and other support	11,178,801	2,905,603	14,084,404	11,205,521	(160,393)	11,045,128
Operating Expenses						
Center for Regenerative Sports Medicine	2,969,477	-	2,969,477	2,855,100	-	2,855,100
Department of BioMedical Engineering	1,656,608	-	1,656,608	1,187,305	-	1,187,305
Surgical Skills Laboratory	695,334	-	695,334	1,538,651	-	1,538,651
Center for Outcomes-Based Orthopaedic Research	1,135,339	-	1,135,339	1,097,694	-	1,097,694
Education department	739,477	-	739,477	759,915	-	759,915
Department of Technology and Communications	402,806	-	402,806	356,996	-	356,996
Imaging research	347,210	-	347,210	340,413	-	340,413
General and administrative	1,874,443	-	1,874,443	1,398,606	-	1,398,606
Development	1,912,722	-	1,912,722	1,711,608	-	1,711,608
Total operating expenses	11,733,416	-	11,733,416	11,246,288	-	11,246,288
Change in Net Assets - Before provision for income tax expense	(554,615)	2,905,603	2,350,988	(40,767)	(160,393)	(201,160)
Provision for Income Tax Recovery (Expense)	46,899	-	46,899	(8,454)	-	(8,454)
Change in Net Assets	(507,716)	2,905,603	2,397,887	(49,221)	(160,393)	(209,614)
Net Assets - Beginning of year	1,464,232	8,494,495	9,958,727	1,513,453	8,654,888	10,168,341
Net Assets - End of year	**$ 956,516**	**$ 11,400,098**	**$ 12,356,614**	**$ 1,464,232**	**$ 8,494,495**	**$ 9,958,727**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services								Support Services		
	Center for Regenerative Sports Medicine	Department of BioMedical Engineering	Surgical Skills Laboratory	Center for Outcomes-Based Orthopaedic Research	Education Department	Department of Technology and Communications	Imaging Research	Total Program Services	General and Administrative	Development	Total
Salaries and benefits	$ 860,857	$ 654,008	$ 77,378	$ 987,517	$ 390,377	$ 327,242	$ 143,636	$ 3,441,015	$ 1,286,443	$ 441,978	$ 5,169,436
Consulting and contract labor	666,251	125,941	50	18,100	10,240	22,910	22,654	866,146	102,115	224,389	1,192,650
Supplies (office, computer, and lab)	367,328	463,847	525,934	13,072	5,605	3,731	745	1,380,262	70,653	22,725	1,473,640
Events and fundraising	1,997	-	-	-	-	-	-	1,997	-	385,509	387,506
Printing and postage	11,379	3,034	710	3,528	2,773	1,199	309	22,932	1,694	26,828	51,454
Maintenance and supplies	26,169	12,800	36,007	6,077	5,763	5,662	5,662	98,140	6,773	7,494	112,407
Rent and leases	326,688	236,481	23,561	25,765	2,051	8,480	10,205	633,231	1,794	4,330	639,355
Telephone and utilities	54,826	38,578	23,802	22,244	2,723	8,856	10,294	161,323	75,112	5,158	241,593
Travel	250,400	47,115	-	28,894	22,105	2,863	5,164	356,541	18,388	30,346	405,275
Legal and accounting	77,555	8,575	-	235	18,634	6,619	-	111,618	65,610	2,413	179,641
Fellows	-	-	-	-	30,078	-	-	30,078	-	-	30,078
Education meetings and lectures	5,066	2,175	-	-	176,608	-	-	183,849	-	-	183,849
Direct mail and planned giving	-	-	-	-	-	-	-	-	-	43,750	43,750
Meals and entertainment	39,306	717	-	4,861	15,419	-	103	60,406	42,818	7,569	110,793
Meetings (board and SAC)	35,654	-	-	-	-	-	-	35,654	24,551	-	60,205
Marketing	500	800	-	200	10,365	-	200	12,065	5,295	687,004	704,364
Scientific summit	188,771	-	-	-	-	-	-	188,771	-	-	188,771
Miscellaneous	28,030	23,177	4,165	23,621	46,194	8,885	6,110	140,182	78,338	18,043	236,563
Depreciation and amortization	28,700	39,360	3,727	1,225	542	6,359	121,665	201,578	28,356	5,186	235,120
Interest expense	-	-	-	-	-	-	20,463	20,463	66,503	-	86,966
Total functional expenses	**$ 2,969,477**	**$ 1,656,608**	**$ 695,334**	**$ 1,135,339**	**$ 739,477**	**$ 402,806**	**$ 347,210**	**$ 7,946,251**	**$ 1,874,443**	**$ 1,912,722**	**$ 11,733,416**

See notes to consolidated financial statements.

Steadman Philippon Research Institute

Consolidated Statement of Functional Expenses

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 and 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, and 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 and postage	8,418	10,923	995	7,529	2,966	1,330	701	32,862	1,836	69,192	103,890
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	69,036	12,722	-	7,657	25,845	-	-	115,260	66,595	6,497	188,352
Fellows	-	-	-	-	30,824	-	-	30,824	-	-	30,824
Education meetings and lectures	650	-	-	-	76,858	-	-	77,508	637	-	78,145
Direct mail and 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
Meetings (board and SAC)	39,217	-	-	-	-	-	-	39,217	5,332	-	44,549
Marketing	327	429	14	3,094	5,737	43	58	9,702	6,593	631,922	648,217
Scientific summit	256,145	-	-	-	-	-	-	256,145	-	-	256,145
Miscellaneous	8,759	1,593	506	6,305	22,981	2,947	1,011	44,102	46,795	23,255	114,152
Depreciation and amortization	15,569	40,350	3,421	1,226	271	23,609	98,705	183,151	14,540	3,529	201,220
Interest expense	-	-	-	-	-	-	23,952	23,952	53,419	-	77,371
Total functional expenses	**$ 2,855,100**	**$ 1,187,305**	**$ 1,538,651**	**$ 1,097,694**	**$ 759,915**	**$ 356,996**	**$ 340,413**	**$ 8,136,074**	**$ 1,398,606**	**$ 1,711,608**	**$ 11,246,288**

Consolidated Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 2,397,887	$ (209,614)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization expense	235,120	201,220
Net loss (gain) on investments	24,446	(52,142)
Endowment contributions	(2,973,805)	-
Deferred taxes	(46,899)	25,437
Changes in operating assets and liabilities that (used) provided cash:		
Accounts receivable	(252,512)	37,802
Accounts receivable - Related party	245,836	(176,612)
Contributions receivable	(946,396)	160,393
Prepaid expenses and other assets	(10,236)	(3,205)
Accounts payable	46,581	(3,889)
Accounts payable - Related party	190,184	-
Accrued expenses	80,423	191,941
Deferred revenue	(10,000)	-
Net cash (used in) provided by operating activities	(1,019,371)	171,331
Cash Flows from Investing Activities		
Purchases of property and equipment	(150,268)	(234,960)
Transfers to Vail Health Foundation	(1,000,000)	-
Proceeds from sale of investments	8,344	146,396
Net cash used in investing activities	(1,141,924)	(88,564)
Cash Flows from Financing Activities		
Payments on line of credit	(1,273,800)	-
Payments on notes payable	-	(118,048)
Payments on note payable	(145,764)	-
Endowment contributions	2,973,805	-
Net cash provided by (used in) financing activities	1,554,241	(118,048)
Net Decrease in Cash and Cash Equivalents	(607,054)	(35,281)
Cash and Cash Equivalents - Beginning of year	2,334,791	2,370,072
Cash and Cash Equivalents - End of year	**$ 1,727,737**	**$ 2,334,791**
Supplemental Cash Flow Information - Cash paid for interest	$ 86,966	$ 77,371

Note 1 - Nature of Business

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

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

SPRI’s Department of Biomedical Engineering (BME) is a collection of multidisciplinary laboratories that applies 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, the 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, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Cash Equivalents

For the purpose of the accompanying financial statements, the Institute considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered. The carrying amount reported in the consolidated statement of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these investments. As of the date of the 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, 2018 and 2017.

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 receivable.

Investments

The Institute holds alternative investments, which are not readily marketable and are measured at fair value, valued at net asset value per share as the practical expedient. 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 (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 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 The 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.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

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

Other Investments

The Institute holds contributed real estate, which was recorded at estimated fair value at the date of donation. The investment is assessed for impairment if events and circumstances warrant such a review. No such impairment was recognized during 2018 or 2017.

Contributions

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

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

Revenue Recognition

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

SPRI has agreements with several corporations that sponsor SPRI's research through grants and corporate partnerships. 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 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. Costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 2 - Significant Accounting Policies (Continued)

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, 2018 and 2017, 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

For the year ended December 31, 2018, applied retrospectively to all years presented, the Institute adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended December 31, 2017 has been restated as follows: net assets of $8,494,495 previously reported as temporarily restricted net assets have been classified as net assets with donor restrictions.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Institute's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Institute has not yet determined which application method it will use.

Note 2 - Significant Accounting Policies (Continued)

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Institute's year ending December 31, 2020 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 new lease standard is expected to have a significant effect on the Institute's financial statements as a result of the Institute's operating leases, as disclosed in Note 14, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, the Institute will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Institute's year ending December 31, 2019 and will be applied on a modified prospective basis. The Institute does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 15, 2019, which is the date the financial statements were available to be issued.

Note 3 - Liquidity

The Institute has $5,123,944 and $4,511,176 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general expenditure consisting of cash of $1,727,737 and $2,334,791, contributions receivable of $2,940,000 and $1,694,084, accounts receivable of $310,867 and $304,191, and short-term investments of $145,340 and $178,130 at December 31, 2018 and 2017, 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 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, which are, on average, approximately $1,900,000 and $1,800,000 at December 31, 2018 and 2017, respectively. 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:

	2018	2017
Amounts due in:		
Less than one year	$ 2,940,000	$ 1,694,084
One to five years	6,010,000	5,450,000
More than five years	1,000,000	2,000,000
Less unamortized discount	(509,109)	(649,589)
Total	$ 9,440,891	$ 8,494,495

The discount rate used was 2.69 percent and 2.40 percent for December 31, 2018 and 2017, respectively.

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

Note 5 - Investments

Investments are reported at NAV and consist of the following:

	December 31, 2018	December 31, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Funds	$ 145,340	$ 178,130	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 an by using a traditional hedge fund approach.

As of December 31, 2018 and 2017, investment return includes net realized and unrealized (loss) gain of $(24,446) and $52,142, respectively.

Note 6 - Fair Value Measurements

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

The following tables present information about the Institute's assets measured at fair value on a recurring basis at December 31, 2018 and 2017 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 6 - Fair Value Measurements (Continued)

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

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Assets -				
Amounts held at Vail Health Foundation	$ -	$ -	$ 1,000,000	$ 1,000,000
Total	$ -	$ -	$ 1,000,000	1,000,000
Investments measured at NAV - Absolute return funds				145,340
Total assets				$ 1,145,340

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	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, 2017
Assets -				
Investments measured at NAV - Absolute return funds				$ 178,130

Note 7 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Machines and video equipment	$ 1,050,583	$ 976,100
Medical equipment	5,002,079	5,002,079
Furniture and fixtures	293,457	285,173
Equipment	526,113	458,613
Leasehold improvements	2,222,660	2,222,660
Total cost	9,094,892	8,944,625
Less accumulated depreciation and amortization	8,303,264	8,068,145
Net property and equipment	$ 791,628	$ 876,480

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 (6.00 and 4.25 percent at December 31, 2018 and 2017). As of December 31, 2018, there was no outstanding balance on the line of credit. As of December 31, 2017, the outstanding balance was $1,273,800. The line of credit matures in March 2021.

Note 9 - Long-term Debt

Long-term debt at December 31 is as follows:

	2018	2017
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.	$ 351,212	$ 496,976
Less current portion	140,833	145,764
Long-term portion	$ 210,379	$ 351,212

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 140,833
2020	147,142
2021	63,237
Total	$ 351,212

Note 10 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

	2018	2017
Net assets with donor restrictions:		
Center for Regenerative Sports Medicine	$ 993,834	$ 777,005
Center for Outcomes-Based Orthopaedic Research	20,000	74,531
Department of BioMedical Engineering	273,086	281,467
Imaging	84,427	-
Education	1,500,000	-
Time restricted only	8,528,751	7,361,492
Total	$ 11,400,098	$ 8,494,495

Note 11 - Endowment

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

Note 11 - Endowment (Continued)

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

The endowment is held by the Foundation 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.

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 $65,412 and $37,417 for the years ended December 31, 2018 and 2017, respectively.

Note 13 - Related Party Transactions

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

Contributions Receivable

The Institute entered into a contribution agreement, as well as a lease commitment with an organization whose board chairman, 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, 2018 and 2017 of approximately $3,300,000. The balance outstanding on the related party contribution receivable as of December 31, 2018 and 2017 was 6,517,348 and 7,361,491, net of discount, respectively.

Accounts Payable

At December 31, 2018, the Institute had accounts payable to The Steadman Clinic totaling $190,184.

Contributions

For the years ended December 31, 2018 and 2017, the Institute received approximately $719,000 and $1,796,000 each year in contributions from related parties, including various board members, employees, and medical staff at The Steadman Clinic (the "Clinic"). There are two physicians of the Clinic who are board members of the Institute.

In addition, the Institute received $723,000 from the Clinic during both 2018 and 2017, respectively, as a corporate sponsor and for the use of certain equipment. The balance due from the Clinic totaled $0 and $245,836 as of December 31, 2018 and 2017, respectively.

See Note 14 for additional related party transactions.

Note 14 - Operating Leases

The Institute is obligated under noncancelable operating leases with a related party primarily for operating facilities, expiring in 2026. The leases require the Institute to pay taxes, insurance, utilities, rent and maintenance costs. The Institute is also obligated under noncancelable operating leases with nonrelated parties primarily for operating facilities. The leases expire through April 2023. Total rent expense under these leases was $806,019 and $852,003 for 2018 and 2017, respectively. Of these amounts, $460,562 and $337,527 for the years ended December 31, 2018 and 2017, respectively, was with a related party.

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

Years Ending December 31	Amount
2019	$ 824,694
2020	824,694
2021	670,481
2022	496,163
2023	321,404
Thereafter	964,211
Total	$ 4,101,647

Note 15 - 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:

	2018	2017
Current:		
Federal	$ -	$ (13,408)
State	-	(3,575)
Deferred:		
Federal	(38,465)	21,278
State	(8,434)	4,159
Total	$ (46,899)	$ 8,454

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

Note 16 - 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, which was fully paid during 2018.