

**ORTHOPAEDIC RESEARCH AND
EDUCATION FOUNDATION**

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2023**

**ORTHOPAEDIC RESEARCH AND
EDUCATION FOUNDATION**

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Trustees
Orthopaedic Research and Education Foundation
Rosemont, IL

We have audited the accompanying financial statements of Orthopaedic Research and Education Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orthopaedic Research and Education Foundation as of June 30, 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Orthopaedic Research and Education Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Orthopaedic Research and Education Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Orthopaedic Research and Education Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Orthopaedic Research and Education Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Orthopaedic Research and Education Foundation's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 9, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Desmond & Ahern, Ltd

January 22, 2024
Chicago, IL

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2023 (with comparative totals for 2022)

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 2,099,300	\$ 3,350,124
Investments	13,343,812	12,757,300
Pledges receivable, net	1,012,613	480,441
Other receivables	12,584	12,584
Prepaid expenses	54,606	91,304
Total current assets	<u>16,522,915</u>	<u>16,691,753</u>
Other Assets		
Right of use - lease assets	219,745	-
Pledge receivable - long-term	475,053	595,424
Cash surrender value of life insurance policies	1,853,274	1,853,917
Charitable remainder trusts receivable	2,755,405	2,741,196
Property and equipment, net	14,143	25,575
Restricted cash	411,496	414,623
Total other assets	<u>5,729,116</u>	<u>5,630,735</u>
Total Assets	<u><u>\$ 22,252,031</u></u>	<u><u>\$ 22,322,488</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Grants and awards payable - current	\$ 2,895,158	\$ 2,562,095
Accounts payable	280,828	41,979
Accrued expenses	234,076	152,030
Due to orthopaedic partners	621,756	619,079
Lease liability - current	156,277	-
Total current liabilities	<u>4,188,095</u>	<u>3,375,183</u>
Grants and awards payable - non current	665,466	500,507
Lease liability - non current	67,540	-
Total liabilities	<u>4,921,101</u>	<u>3,875,690</u>
Net Assets		
Without donor restrictions	(1,667,970)	(239,896)
With donor restrictions		
Purpose restricted	6,801,931	6,534,016
Perpetual in nature	12,196,969	12,152,678
Total with donor restrictions	<u>18,998,900</u>	<u>18,686,694</u>
Total net assets	<u>17,330,930</u>	<u>18,446,798</u>
Total Liabilities and Net Assets	<u><u>\$ 22,252,031</u></u>	<u><u>\$ 22,322,488</u></u>

See independent auditor's report and notes to financial statements.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023 (with comparative totals for 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<u>Public Support and Revenue</u>				
Contributions	\$ 1,552,841	\$ 1,622,700	3,175,541	\$ 3,683,699
Contributions to endowments	-	44,291	44,291	6,579
Change in value of charitable remainder				
Trusts receivable	-	14,210	14,210	(624,972)
Change in cash surrender value of				
Life insurance policies	-	(6,447)	(6,447)	7,116
Investment gain (loss), net of fees	86,556	-	86,556	39,787
Net assets released from restrictions				
Expiration of time restrictions and other releases	214,694	(214,694)	-	-
Grant funding	2,003,678	(2,003,678)	-	-
Total public support and revenue	<u>3,857,769</u>	<u>(543,618)</u>	<u>3,314,151</u>	<u>3,112,209</u>
<u>Expenses</u>				
Program Expenses	4,167,691	-	4,167,691	2,715,737
Management and general	513,681	-	513,681	604,787
Fundraising	892,260	-	892,260	942,806
Total expenses	<u>5,573,632</u>	<u>-</u>	<u>5,573,632</u>	<u>4,263,330</u>
Change in net assets before non-operating items	<u>(1,715,863)</u>	<u>(543,618)</u>	<u>(2,259,481)</u>	<u>(1,151,121)</u>
Non-Operating Items:				
Investment gain (loss) on endowment assets	-	1,160,278	1,160,278	(2,143,996)
Orthopaedic partner endowment distributions	(16,665)	-	(16,665)	(17,460)
Endowment spending in accordance with the Organization's spending rule	304,454	(304,454)	-	-
	<u>287,789</u>	<u>855,824</u>	<u>1,143,613</u>	<u>(2,161,456)</u>
Change in Net Assets	<u>(1,428,074)</u>	<u>312,206</u>	<u>(1,115,868)</u>	<u>(3,312,577)</u>
Net assets, beginning of year	<u>(239,896)</u>	<u>18,686,694</u>	<u>18,446,798</u>	<u>21,759,375</u>
Net assets, end of year	<u>\$ (1,667,970)</u>	<u>\$ 18,998,900</u>	<u>\$ 17,330,930</u>	<u>\$ 18,446,798</u>

See independent auditor's report and notes to financial statements.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023 (with comparative totals for 2022)

	Program Services	Management and General	Fundraising	2023 Total	2022 Total
<u>Functional Expenses</u>					
Salaries	\$ 1,035,429	\$ 244,701	\$ 368,532	\$ 1,648,662	\$ 1,497,700
Payroll taxes and fringe benefits	312,717	73,904	111,303	497,924	439,384
Grants	2,130,495	-	-	2,130,495	1,365,339
Professional services	75,035	36,111	37,122	148,268	115,139
Advertising and promotion	103,822	10,380	78,136	192,338	104,357
Office expenses	34,106	23,836	14,129	72,071	70,814
Information technology	101,494	23,986	36,124	161,604	146,531
Occupancy	38,212	36,146	106,945	181,303	140,313
Travel	17,322	2,261	11,161	30,744	28,770
Conferences and meetings	232,413	12,040	117,016	361,469	229,321
Depreciation	7,180	1,696	2,556	11,432	12,661
Insurance	74,684	5,003	7,534	87,221	88,689
Bad debt	-	40,000	-	40,000	16,066
Dues and subscriptions	4,782	1,130	1,702	7,614	7,988
Miscellaneous	-	2,487	-	2,487	258
Total Expenses	\$ 4,167,691	\$ 513,681	\$ 892,260	\$ 5,573,632	\$ 4,263,330

See independent auditor's report and notes to financial statements.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023 (with comparative totals for 2022)

	<u>2023</u>	<u>2022</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$ (1,115,868)	\$ (3,312,577)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non cash lease expense	4,072	-
Depreciation and amortization	11,432	12,661
Net unrealized (gain) loss on investments	(825,239)	2,386,372
Net realized gains on investments	(97,649)	261,907
Change in cash surrender value of life insurance policies	643	(4,002)
Change in charitable remainder trusts receivable	(14,209)	624,970
Bad debt expense	40,000	16,066
Distributions of orthopaedic partner endowments	487,597	502,560
(Distributions) proceeds from permanently restricted contributions	(44,291)	(6,579)
Decrease (increase) in		
Pledges receivable	(451,801)	164,403
Other receivables	-	1,500
Prepaid expenses	36,698	(22,221)
Increase (decrease) in		
Grants and awards payable	498,022	(236,763)
Accounts payable	238,849	40,722
Accrued expenses	82,046	(16,382)
Due to orthopaedic partners	2,677	(56,098)
Net cash used in operating activities	<u>(1,147,021)</u>	<u>356,539</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sales of marketable securities	3,771,673	3,771,673
Purchases of marketable securities	<u>(3,435,297)</u>	<u>(2,630,584)</u>
Net cash provided by investing activities	<u>\$ 336,376</u>	<u>\$ 1,141,089</u>

See independent auditor's report and notes to financial statements.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS (CONT.)
For the Year Ended June 30, 2023 (with comparative totals for 2022)

	<u>2023</u>	<u>2022</u>
<u>Cash Flows from Financing Activities</u>		
Distributions of orthopaedic partner endowment	\$ (487,597)	\$ (502,560)
Proceeds (distributions) from permanently restricted contributions	44,291	6,579
Net cash (used in) investing activities	<u>(443,306)</u>	<u>(495,981)</u>
Net increase (decrease) in cash and cash equivalents	(1,253,951)	1,001,647
Cash and cash equivalents, beginning of year	<u>3,764,747</u>	<u>2,763,100</u>
Cash and cash equivalents, end of year	<u>\$ 2,510,796</u>	<u>\$ 3,764,747</u>
Consists of:		
Cash and equivalents (current)	\$ 2,099,300	\$ 3,350,124
Restricted cash	411,496	414,623
Total cash and cash equivalents	<u>\$ 2,510,796</u>	<u>\$ 3,764,747</u>

See independent auditor's report and notes to financial statements.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Foundation

The Orthopaedic Research and Education Foundation (OREF), founded in 1955 as an Illinois not-for-profit corporation, is a charitable 501(c)(3) Foundation committed to improving lives by supporting excellence in orthopaedic research. OREF is dedicated to being the leader in supporting research that improves function, eliminates pain and restores mobility, and is the premiere orthopaedic Foundation funding research across all specialties.

As the leading grant making resource for new investigators, OREF provides important financial support that helps them build a strong foundation for their research careers. This critical early support enables new investigators to generate the data and outcomes needed to secure larger grants from prestigious funding sources such as the National Institutes of Health (NIH) and the Department of Defense (DoD).

OREF also provides grant funding to established clinicians for whom other funding may be limited due to the area of research being pursued or funding shortfalls. In addition to financial support, OREF offers new investigators opportunities to establish mentor relationships with well-respected orthopaedic surgeons and to hone important skills such as those acquired through participation in grant writing workshops.

This summary of significant accounting policies is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly reflect all significant accounts receivable, payable, and other liabilities.

Basis of Presentation

The Foundation is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions, as required by Generally Accepted Accounting Principles. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Items that affect this net asset category principally consist of gifts without restrictions, including those designated by the Board, fees for service and related expenses associated with the core activities of the Foundation.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met, endowment gifts, pledges, and investment returns on endowment funds. Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Grants and Awards Expenses

Grants and awards are expensed, and a liability established when approved by the Research Grants Committee. These grants are paid over a one-to-three-year period, based on the submission of grantee progress reports. Grants payable in excess of one year are recorded at net present value.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in banks and money market funds. The Foundation considers highly liquid short-term instruments with original maturities of three months or less to be cash equivalents. No cash was paid for interest or taxes during the year ended June 30, 2023.

Restricted Cash

Amounts collected by the Foundation which are intended for orthopaedic partners are presented as restricted cash on the statement of financial position and are offset by due to orthopaedic partners' liability.

Investments

Investments, whether purchased or donated, are recorded at fair value. All gains and losses are included in the statement of activities. Unrealized gains or losses on such securities are based on the change in the market value of the assets from the beginning to the end of the fiscal year. Realized gains or losses are based on the change in the market value of the assets from the beginning of the fiscal year to the date of sale.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the Foundation and the amounts reported in the statement of activities.

Concentration of Credit Risk

The Foundation maintains cash and cash equivalents in certain financial institutions. At times during the year, balances at these institutions may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Pledges Receivable

Unconditional promises to give are recognized as revenues in the period the promise is given. Pledges receivable are reported net of a present value discount and an allowance for doubtful pledges of \$100,000 for the year ended June 30, 2023 based on management's estimate of the collectability of identified receivables.

Contributions

Contributions are recognized when received or when the donor makes an unconditional promise to give to the Foundation. Promises to give payable over more than one year are recorded at net present value. Contributions of cash and other assets are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions must be invested in perpetuity, the earnings from which are available to support the activities of the Foundation. Gifts of marketable securities are recorded as contributions at their fair value at the date of the gift.

Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return- are not recognized until the conditions on which they depend have been met. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Foundation's policy to immediately liquidate donations of common stock.

As part of its fundraising activities, the Foundation solicits annual campaign donations on behalf of orthopaedic partners. Contributions in the statement of activities do not include such funds as the Foundation is only an intermediary. Contributions received in fiscal year 2023 on behalf of orthopaedic partners totaled \$480,598 during the year ended June 30, 2023. A total of \$621,756 has

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

not been remitted to these orthopaedic partners which includes the cash surrender value of charitable remainder trusts of \$210,260 and is included on the statement of financial position as of June 30, 2023.

In addition, the Foundation solicits contributions to its endowment that are to benefit the orthopaedic partners and other Foundations. These contributions are recorded as permanently restricted contributions of the Foundation, and the earnings are allocated to the beneficiary Foundation annually.

Property and Equipment

Property and equipment purchase of \$2,000 or more and with an expected useful life of three or more years are recorded at cost and depreciated over their estimated useful lives on a straight-line basis. Office furniture and equipment, and computer equipment and software depreciated over five years. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease.

Major renewals and betterments, which extend the useful life of an asset, are capitalized while routine maintenance and repairs are expensed as incurred. Gains or losses on dispositions of property and equipment are included in the statement of activities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Directly identifiable expenses are charged to the specific program or supporting service. Expenses related to more than one function are allocated to program expenses and supporting services as the basis of periodic time and expense reviews made by management.

Donated Services

A significant amount of donated services are contributed to the Foundation by various individuals to support the Foundation's program and supporting services. These volunteer activities include participation on the Board of Trustees and numerous other committees. The value of these services is not reflected in these financial statements since they do not meet the criteria for recognition under the FASB Codification topic, Accounting for Contributions Received and Contributions Made.

Tax Status

The Foundation, an Illinois nonprofit corporation, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any. The Foundation's annual information and income tax returns filed with the federal and state governments are subject to examination generally for three years after they are filed.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

The Foundation has adopted the requirements for accounting for uncertain tax positions and management has determined that the Foundation was not required to record a liability related to uncertain tax positions as of June 30, 2023.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Foundation has evaluated subsequent events through January 22, 2024, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of that date.

Adoption of New Accounting Standard

Effective July 01, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (Topic 842). The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of June 30, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on June 30, 2023 (a) a lease liability of \$223,817, which represents the present value of the remaining lease payments of \$359,638, discounted using the risk-free discount rate of 2.84%, and (b) a right-of-use asset of \$219,745. The Organization did not record an adjustment to net assets as a result of the cumulative effect of the adoption.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 2 – Financial Assets and Liquidity Resources

As of June 30, 2023, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets, at year-end:	
Cash and cash equivalents	\$ 2,099,300
Investments	13,343,812
Pledges receivable	<u>1,112,613</u>
Total financial assets, at year-end	16,555,725
Less:	
Net assets with donor restrictions - Purpose	(3,894,447)
Net assets with donor restrictions - Endowment, net of endowment assets held in non-current accounts	(12,196,969)
Allowance for doubtful pledges	<u>(100,000)</u>
Financial assets available to meet cash need for general expenditures within one year	<u><u>\$ 364,309</u></u>

The Foundation manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. During the year ended June 30, 2023 the level of liquidity and reserves was managed within the policy requirements.

Note 3 – Investments and Investment Return

At June 30, 2023, the aggregate amounts of investments by major type recorded at fair value were as follows:

	<u>Fair Value</u>	<u>Cost</u>
Fixed income mutual funds	\$ 2,096,037	\$ 1,322,990
Domestic equity mutual funds	6,160,757	5,123,768
International equity mutual funds	3,510,754	3,165,983
U.S. government and agency securities	27,844	22,619
Alternative investment	<u>1,548,420</u>	<u>1,500,000</u>
	<u><u>\$ 13,343,812</u></u>	<u><u>\$ 11,135,360</u></u>

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 3 – Investments and Investment Return (cont.)

The following summarizes the investment return for the year ending June 30, 2023 and its classification in the Statement of Activities:

Interest and dividends	\$ 324,472
Net realized gains	97,649
Net unrealized gains	825,239
Investment fees	<u>(526)</u>
Total investment return	<u>\$ 1,246,834</u>
Statement of Activities	
Investment return from operations	\$ 86,556
Investment return on endowment	<u>1,160,278</u>
Total investment return	<u>\$ 1,246,834</u>

Note 4 – Fair Value Measurements

GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. These standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value of the Organizations investments in certain alternative funds are determined using the net asset value (NAV) per share and are not included in the valuation hierarchy. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Valuation derived from valuation techniques, in which one or more significant inputs are unobservable.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to ASC Topic, Fair Value Measurements and Disclosures.

The Foundation assesses the levels of investments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

Note 4 – Fair Value Measurements (cont.)

in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the period ended June 30, 2023, there were no such transfers.

The following is a description of the valuation methodologies used for assets measured at fair value and NAV. There have been no changes in the methodologies used for the period ended June 30, 2023.

Investments at fair value

The Foundation's marketable securities include government bonds, various stocks and mutual funds, and U.S treasury bills. Government bonds, stocks, and treasury bills are traded on a national securities exchange and are stated at the last reported sales price on the date of valuation. Investments in mutual funds are stated at their reported net asset value as of the valuation date. The investments are entirely Level 1 assets as defined by ASC Topic, Fair Value Measurements and Disclosures, on June 30, 2023.

Investments at NAV

The Organization applies the provision of the accounting standard for *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value (NAV) practical expedient from categories within the fair value hierarchy and related disclosures. Management has approved procedures pursuant to the method in which the Board values its interests in these investments at fair value, which ordinarily will be the amount equal to the pro rata interest in the net assets of alternative investments (net asset value/NAV), as such value is supplied by, or on behalf of, each investment from time to time, usually quarterly by the investment manager.

Such valuations are generally net of management and performance incentive fees pursuant to the alternative funds operating and subscription agreements. The value of underlying funds is determined in accordance with policies established by the alternative fund, as described in their financial statements and offering memoranda. The Organization's investment in this fund is subject to the terms and conditions of the respective operating agreement and offering memoranda, as appropriate.

Management has designed ongoing due diligence procedures with respect to the Organization's investments, which assist management in assessing the quality of information provided by, or on behalf of, each alternative investment and aid in determining whether such information continues to be reliable or whether future investigation is necessary. There is uncertainty in determining fair values of alternative investments, arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies, and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying statements of financial position might differ from the values that would have been used had a ready market for the alternative investment interests existed. Furthermore, there is at least a reasonable possibility that estimates will change by material amounts in the near term.

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Note 4 – Fair Value Measurements (cont.)

The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Organization’s annual financial statements reporting.

Charitable Remainder Trusts

The fair value of the assets held in charitable remainder trusts is determined by calculating the present value of the future expected cash flows. Future cash flows are estimated based on the lesser of the total assets of the trust or the amount pledged to the Foundation, and management's estimate of the year of receipt. Discount rates used are based on the U.S. Treasury rate plus a risk premium. Discount rates used for the periods ended June 30, 2023, range from 3.45 percent to 5.38 percent. The charitable remainder trusts are categorized as Level 3 in the fair value hierarchy at June 30, 2023.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2023:

	Fair Value	Level 1	Level 2	Level 3
Fixed income mutual funds	\$ 2,096,037	\$ 2,096,037	\$ -	\$ -
Domestic equity mutual funds	6,160,757	6,160,757	-	-
International equity mutual funds	3,510,754	3,510,754	-	-
US government and agency securities	27,844	27,844	-	-
Charitable remainder trusts	2,755,405	-	-	2,755,405
	14,550,797	11,795,392	-	2,755,405
Investments reported at net asset value (NAV)	1,548,420	1,548,420	-	-
	<u>\$16,099,217</u>	<u>\$13,343,812</u>	<u>\$ -</u>	<u>\$ 2,755,405</u>

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NOTES TO FINANCIAL STATEMENTS
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Note 4 – Fair Value Measurements (cont.)

Fair value measurements using significant unobservable inputs (Level 3):

	Charitable Remainder Trusts
Balance June 30, 2022	\$ 2,741,196
Change in value, net of appreciation	14,210
Balance, June 30, 2023	<u>\$ 2,755,405</u>

Note 5 – Charitable Remainder Trusts

The Foundation is named as a beneficiary of various irrevocable charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust’s term (usually the designated beneficiary’s lifetime). At the end of the trust’s term, a specified portion of the remaining assets are available for the Foundation’s use or for investment in the perpetuity. The fair value of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statement of activities as temporarily restricted or permanently restricted contributions in the period the trust was established and in the statement of financial position as a charitable remainder trust receivable. The estimated present value of the charitable remainder trusts totaled \$2,755,405 at June 30, 2023.

The Foundation has not been designated as the trustee of any of the trusts and therefore does not hold any of the trust assets, nor is it liable for payment of distributions to the donors. The present value of the estimated future payments was calculated using a discount rate based on the U.S. Treasury yield rate plus a 0.5 percent risk premium for maturities that correspond to the discount period. The discount period is based on the designated beneficiary’s expected life based on the applicable mortality tables.

In addition, a donor challenged two orthopaedic partner Foundations to raise \$250,000 each for the Foundation by the end of 1998, at which time the donor would match each contribution up to \$250,000. Each challenge was met, and the donor has stipulated that the Foundation will receive \$500,000 from his charitable remainder trust, which is a revocable trust. The matching funds will not be recorded until the contribution becomes irrevocable.

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Note 6 – Life Insurance Policies

In 1995, the Foundation began a fundraising program encouraging donors to make charitable gifts in the form of life insurance policies. Donors make charitable, tax-deductible contributions to the Foundation annually in the amount of the insurance premiums. The Foundation purchases the life insurance policies from these donors and is the owner and beneficiary of the policies. The cash surrender value of the policies was \$1,853,274 and at June 30, 2023.

Note 7 – Pledges Receivable

Pledges receivable as of June 30, 2023, represent unconditional promises to give and are due as follows:

Less than one year, net of allowance of \$100,000	\$ 1,012,613
One to five years	606,701
Five to ten years	4,000
Total pledge receivable	<u>1,623,314</u>
Less: discount to net present value	<u>(135,648)</u>
Net pledge receivable	1,487,666
Less: Current portion	<u>(1,012,613)</u>
Noncurrent pledges receivable, net	<u><u>\$ 475,053</u></u>

The discount rate used in determining the net present value of pledges receivable was 8% at June 30, 2023.

For the year ended June 30, 2023, contributions of \$71,000, were received from Board members. Pledges receivable from Board members totaling \$90,500 were outstanding at June 30, 2023.

Note 8 – Property and Equipment

Property and equipment at June 30, 2023, consists of:

Property and Equipment	
Office furniture and equipment	\$ 53,843
Computer equipment	13,439
Computer software	64,025
Leasehold improvements	50,447
	<u>181,754</u>
Less: accumulated depreciation and amortization	<u>(167,611)</u>
Property and Equipment, Net	<u><u>\$ 14,143</u></u>

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
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Note 9 – Grants and Awards Payable

Grant and awards payable on June 30, 2023 consists of:

Grants and awards payable	\$ 3,623,115
Discount to net present value	(62,491)
	<u>3,560,624</u>
Current portion	(2,895,158)
Noncurrent grants and awards payable	<u>\$ 665,466</u>

The discount rate used in determining the net present value of grants and awards payable was 8.00% at June 30, 2023.

Note 11 – Retirement Plan

The Foundation transitioned from a defined contribution retirement plan to a qualified 401(k) retirement plan in 2016. All employees previously vested in the defined contribution retirement plan were fully transitioned into the qualified 401(k) retirement plan (the plan). Employees are eligible after completing 30 days of continuous employment as defined in the plan document. Upon entrance into the plan, employees are fully vested. Eligible employees can contribute up to 15% of their monthly salary into the plan. The Foundation makes a non-discretionary matching contribution for the employees of up to 4% and a safe harbor contribution of deferred compensation. The plan may be amended or terminated at any time. Retirement plan expense was \$112,414 for the year ended June 30, 2023.

Note 12 – Operating Leases

The Foundation leases its existing office space which started at \$10,338 per month, and increases 4% yearly, with the Ortho Properties LLC, through December 2024.

The following summarizes the line items in the balance sheet which include amounts for the office space operating lease as of June 30, 2023:

Operating lease right-of-use assets	\$ 369,641
Accumulated amortization	(149,896)
Net operating right of use assets	<u>\$ 219,745</u>
Current operating liabilities	\$ 156,278
Noncurrent operating lease liabilities	67,540
Total operating lease liabilities	<u>\$ 223,817</u>

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
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Note 12 – Operating Leases (cont.)

The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2023:

Weighted-average remaining lease term (months)	17
Weighted-average discount rate	0.237%

The Organization has made the election afforded in the guidance under ASC Topic 842 which allows the use of the risk-free discount rate for these leases, which is based on the borrowing rate for the United States Federal Government for a period comparable to the lease terms.

The maturities of operating lease liabilities are as follows for the years ending June 30, 2023:

2025	68,020
Thereafter	<u>-</u>
Total future undiscounted lease payments	228,652
Less: interest	<u>(4,835)</u>
Present value of lease liabilities	<u><u>\$ 223,817</u></u>

The following summarizes the cash flow information and lease cost related to the leases for the year ended June 30, 2023:

Lease cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	<u>\$ (154,454)</u>
	<u><u>\$ (154,454)</u></u>

Components of lease cost:

Operating lease cost	<u>\$ 158,527</u>
Total lease cost	<u><u>\$ 158,527</u></u>

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Note 13 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at June 30, 2023:

Subject to expenditure for specified purpose:	
Research grant funds	\$ 3,894,447
Subject to Passage of Time:	
Beneficial interest in trusts	433,798
Promises to Give that are not restricted by donors, but which are unavailable for expenditure until due	-
Sub-total of net assets restricted for time or purpose	<u>4,328,245</u>
Funds to be held in perpetuity	
Beneficial interest in trusts to be held in perpetuity	1,772,416
Cash surrender value of life insurance policies - OREF	<u>1,643,014</u>
	<u>3,415,430</u>
Endowments:	
Subject to Endowment Spending Policy and Appropriation:	
Losses on Endowment Funds restricted	(941,744)
Original Donor-Restricted Gift amount to be maintained in perpetuity:	
Orthopaedic partner endowments	94,516
Grants and awards	<u>12,102,453</u>
Total endowments with donor restriction	<u>11,255,225</u>
Total net assets to be held in perpetuity	<u>15,612,399</u>
Total Donor Restricted Net Assets	<u><u>\$ 18,998,900</u></u>

The Foundation has signed agreements with 27 Orthopaedic Partner Foundations (Partners) to release to the Partners the net assets with donor restrictions (endowments) the Foundation had previously received. The Partners have agreed to consider the released funds to be permanently restricted and to use the investment earnings for a purpose consistent with the charitable purpose of the Partners. The total amount distributed during the year ended June 30, 2023 was \$16,665.

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Note 14 – Endowment

The Foundation's endowment consists of over 40 donor-restricted funds established for programs of the Foundation and its orthopaedic partners. As required by accounting standards generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Foundation has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. The investment policy established an achievable return objective through diversification of asset classes. The current long-term investment return objective is to provide a nominal return of 8 percent or greater, net of investment fees. Actual returns in any given year may vary from this amount.

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). The Foundation targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The Foundation's endowment spending policy determines the distribution of the investment earnings of these funds absent any donor specifications to the contrary. This spending policy calculated the amount annually distributed from the Foundation's various endowment funds for the grant making and administration. Under the current endowment spending policy, 5 percent of the average of the fair value of donor-restricted marketable securities at the end of the previous 12 quarters is appropriated to support current operations, representing an appropriation of current year total investment return.

ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION
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Note 14 – Endowment (cont.)

	June 30, 2023			
	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary Donor Restrictions	Perpetual Donor Restrictions	
Donor-Restricted Endowment Funds:				
Donor-restricted endowment funds	\$ -	\$ (941,744)	\$ 12,196,969	\$ 11,255,225
Board designated endowment funds	2,297,303	-	-	2,297,303
Total Funds	<u>\$ 2,297,303</u>	<u>\$ (941,744)</u>	<u>\$ 12,196,969</u>	<u>\$ 13,552,528</u>

Endowment net asset composition by type of funds as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary Donor Restrictions	Perpetual Donor Restrictions	
Endowment net assets beginning of year	\$ 2,341,594	\$(1,591,288)	\$ 12,152,678	\$ 12,902,984
Investment return				
Investment income, net of fees	-	286,741	-	286,741
Realized and unrealized losses in fair value of investments	-	873,537	-	873,537
Contributions (due from without restriction)	(44,291)	-	44,291	-
Appropriation of endowment assets for expenditure		(304,454)	-	(304,454)
Appropriation of endowment assets for expenditure designated to OP's and other organizations	-	(206,280)	-	(206,280)
Orthopaedic partner endowment distributions	-	-	-	-
Endowment net assets, end of year	<u>\$ 2,297,303</u>	<u>\$ (941,744)</u>	<u>\$ 12,196,969</u>	<u>\$ 13,552,528</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. During the year ended June 30, 2023, the endowments were not underwater in total however due to realize and unrealized losses and the appropriation of endowment assets for expenditure based on prior balances, the restricted balance fell below zero to be replenished by future gains.