

**ORTHOPAEDIC RESEARCH AND  
EDUCATION FOUNDATION**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2024  
(with summarized comparative  
Totals for 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 Foundation), which comprise the statement of financial position as of June 30, 2024, 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, 2024, and the changes in its net assets and its cash flows for the year 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, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 22, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Desmond & Ahern, Ltd*

April 22, 2025  
Chicago, IL

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2024 (with comparative totals for 2023)**

	<u>2024</u>	<u>2023</u>
<b><u>Assets</u></b>		
Current Assets		
Cash and cash equivalents	\$ 77,117	\$ 148,109
Investments	15,624,036	15,451,283
Pledges receivable, net	531,231	1,012,613
Other receivables	12,584	12,584
Prepaid expenses	75,808	54,606
Total current assets	<u>16,320,776</u>	<u>16,679,195</u>
Other Assets		
Operating lease, right of use asset	67,251	219,745
Pledges receivable, net of current portion	92,786	475,053
Cash surrender value of life insurance policies	1,906,949	1,853,274
Charitable remainder trusts receivable	2,742,892	2,755,405
Property and equipment, net	4,160	14,143
Restricted cash, due to orthopaedic partners	361,086	411,496
Total other assets	<u>5,175,124</u>	<u>5,729,116</u>
<b>Total Assets</b>	<b><u>\$ 21,495,900</u></b>	<b><u>\$ 22,408,311</u></b>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Grants and awards payable - current	\$ 3,039,281	\$ 3,051,438
Accounts payable	82,956	280,828
Accrued expenses	343,599	234,076
Due to orthopaedic partners	580,380	621,756
Operating lease liability - current portion	68,020	156,277
Total current liabilities	<u>4,114,236</u>	<u>4,344,375</u>
Grants and awards payable, net of current portion	345,219	665,466
Operating lease liability, net of current portion	-	67,540
Total liabilities	<u>4,459,455</u>	<u>5,077,381</u>
Net Assets		
Without donor restrictions	<u>(3,363,287)</u>	<u>(1,667,970)</u>
With donor restrictions		
Purpose restricted	4,164,657	3,386,501
Perpetual in nature	16,235,075	15,612,399
Total with donor restrictions	<u>20,399,732</u>	<u>18,998,900</u>
Total net assets	<u>17,036,445</u>	<u>17,330,930</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 21,495,900</u></b>	<b><u>\$ 22,408,311</u></b>

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

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2024 (with summarized comparative totals for 2023)**

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b><u>Public Support and Revenue</u></b>				
Contributions	\$ 1,214,998	\$ 924,691	\$ 2,139,689	\$ 3,175,541
Contributions to endowments	-	611,142	611,142	44,291
Orthopaedic Partner contributions	-	500,782	500,782	-
Change in value of charitable remainder trusts receivable	-	(12,513)	(12,513)	14,210
Change in cash surrender value of life insurance policies	-	44,641	44,641	(6,447)
Investment income, net of fees	64,614	-	64,614	54,214
Net assets released from restrictions				
Expiration of time restrictions and other releases	75,582	(75,582)	-	-
Grant funding	1,792,325	(1,792,325)	-	-
Total public support and revenue	<u>3,147,519</u>	<u>200,836</u>	<u>3,348,355</u>	<u>3,281,809</u>
<b><u>Expenses</u></b>				
Program services	3,846,993	-	3,846,993	4,151,520
Management and general	487,500	-	487,500	513,681
Fundraising	867,213	-	867,213	876,089
Total expenses	<u>5,201,706</u>	<u>-</u>	<u>5,201,706</u>	<u>5,541,290</u>
Change in net assets before non-operating items	<u>(2,054,187)</u>	<u>200,836</u>	<u>(1,853,351)</u>	<u>(2,259,481)</u>
Non-Operating Items:				
Investment income on endowment assets, net	178,146	1,396,608	1,574,754	1,160,278
Endowment funds appropriated for expenditure in accordance with the Organization's spending policy	394,833	(394,833)	-	-
Transfer back of endowment assets for expenditure designated to Orthopaedic partners and other organizations	(214,109)	214,109	-	-
Orthopaedic partner endowment distributions	-	(15,888)	(15,888)	(16,665)
	<u>358,870</u>	<u>1,199,996</u>	<u>1,558,866</u>	<u>1,143,613</u>
<b>Change in Net Assets</b>	<u>(1,695,317)</u>	<u>1,400,832</u>	<u>(294,485)</u>	<u>(1,115,868)</u>
<b>Net assets, beginning of year</b>	<u>(1,667,970)</u>	<u>18,998,900</u>	<u>17,330,930</u>	<u>18,446,798</u>
<b>Net assets, end of year</b>	<u>\$ (3,363,287)</u>	<u>\$ 20,399,732</u>	<u>\$ 17,036,445</u>	<u>\$ 17,330,930</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, 2024 (with summarized comparative totals for 2023)**

	Program Services	Management and General	Fundraising	2024 Total	2023 Total
<b><u>Functional Expenses</u></b>					
Salaries and wages	\$ 1,116,052	\$ 263,755	\$ 397,227	\$ 1,777,034	\$ 1,648,662
Payroll taxes and fringe benefits	319,500	75,507	113,717	508,724	497,924
Grants	1,815,355	-	-	1,815,355	2,130,495
Professional services	104,425	46,922	37,167	188,514	115,926
Advertising and promotion	114,762	6,668	88,087	209,517	192,338
Office expenses	34,412	14,021	9,052	57,485	72,071
Information technology	106,434	25,153	37,882	169,469	161,604
Occupancy	33,289	31,491	93,168	157,948	181,303
Travel	21,460	3,889	10,862	36,211	30,744
Conferences and meetings	107,290	-	69,524	176,814	361,469
Depreciation	6,270	1,481	2,232	9,983	11,432
Insurance	64,785	4,809	7,242	76,836	87,221
Bad debt	-	13,000	-	13,000	40,000
Dues and subscriptions	2,959	699	1,053	4,711	7,614
Miscellaneous	-	105	-	105	2,487
<b>Total Expenses</b>	<b>\$ 3,846,993</b>	<b>\$ 487,500</b>	<b>\$ 867,213</b>	<b>\$ 5,201,706</b>	<b>\$ 5,541,290</b>

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, 2024 (with comparative totals for 2023)**

	<u>2024</u>	<u>2023</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Change in net assets	\$ (294,485)	\$ (1,115,868)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non cash lease adjustment	(3,303)	4,072
Depreciation	9,983	11,432
Net unrealized (gain) on investments	(671,694)	(825,239)
Net realized (gains) on investments	(649,758)	(97,649)
Change in cash surrender value of life insurance policies	(53,675)	643
Change in charitable remainder trusts receivable	12,513	(14,209)
Bad debt expense	13,000	40,000
Endowment contributions	(611,142)	(44,291)
Decrease (increase) in		
Pledges receivable	850,649	(451,801)
Prepaid expenses	(21,202)	36,698
Increase (decrease) in		
Grants and awards payable	(332,404)	654,302
Accounts payable	(197,872)	238,849
Accrued expenses	109,523	82,046
Due to orthopaedic partners	(41,376)	2,677
Net cash used in operating activities	<u>(1,881,243)</u>	<u>(1,478,338)</u>
<b><u>Cash Flows from Investing Activities</u></b>		
Proceeds from sales of marketable securities	9,940,237	5,399,673
Purchases of marketable securities	<u>(8,791,538)</u>	<u>(7,170,768)</u>
Net cash provided by (used in) investing activities	<u>\$ 1,148,699</u>	<u>\$ (1,771,095)</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, 2024 (with comparative totals for 2023)**

	<u>2024</u>	<u>2023</u>
<b><u>Cash Flows from Financing Activities</u></b>		
Endowment contributions	\$ 611,142	\$ 44,291
Net cash provided by financing activities	<u>611,142</u>	<u>44,291</u>
<b>Net decrease in cash and cash equivalents</b>	(121,402)	(3,205,142)
<b>Cash and cash equivalents, beginning of year</b>	<u>559,605</u>	<u>3,764,747</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 438,203</u></u>	<u><u>\$ 559,605</u></u>
<b>Consists of:</b>		
Cash and equivalents (current)	\$ 77,117	\$ 148,109
Restricted cash	<u>361,086</u>	<u>411,496</u>
Total cash and cash equivalents	<u><u>\$ 438,203</u></u>	<u><u>\$ 559,605</u></u>

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

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

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

Foundation

The Orthopaedic Research and Education Foundation (OREF or Foundation), 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, 2024**

**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 Payable

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, 2024.

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, 2024**

**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 of \$22,086 and an allowance for doubtful pledges of \$100,000 at June 30, 2024 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.

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

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

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

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.

Leases

The Foundation determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (“ROU”) assets – operating leases and operating lease liability in the statement of financial positions. ROU assets represent the Foundation’s right to use an underlying asset for the lease term and lease liabilities represent the Foundation’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option.

Lease expense for operating lease payments are recognized on a straight-line basis over the lease term. The Foundation has elected to recognize payments for short-term leases with a lease term of 12 months or less as an expense as incurred and these leases are not included as lease liabilities or right of use assets on the statement of financial position. The Foundation also used the practical expedient to not separately allocate lease and non-lease components.

When individual lease contracts do not provide information about the discount rate implicit in the lease, the Foundation has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities. The lease liability includes free rent and future lease incentives from the landlord. The value of a lease is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

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

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.

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, 2024.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no impact on previously reported net assets, changes in net assets, or cash flows.

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, 2023, 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 April 22, 2025, 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.

Change in Accounting Policy

Effective July 1, 2023, the Foundation changed its accounting policy regarding contributions received on behalf of orthopaedic partners. Previously, these funds were treated as agency transactions and excluded from the Foundation's revenue and expenses. Under the new policy, the Foundation recognizes these contributions as revenue when received and records corresponding award expenses

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

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

Change in Accounting Policy (cont.)

when funds are distributed to the orthopaedic partners. The Foundation also retains a 2% fee for processing, which is recognized as unrestricted revenue. Management believes this change better reflects the Foundation's role in administering these contributions and aligns with its mission.

The change resulted in an increase of \$510,767 in revenue and \$494,391 of grant expenses for the year ended June 30, 2024 with approximately \$16,000 remaining as restricted to be paid out and expensed in 2025.

Legacy Balances under Prior Policy (Due to Orthopaedic Partners)

As of June 30, 2024, the Foundation continues to hold \$580,380 which includes the cash surrender value of charitable remainder trusts of \$219,294 and is included on the statement of financial position as of June 30, 2024 in funds classified as due to orthopaedic partners. These amounts relate to balances under the Foundation's prior policy in effect before 2014. Under that policy, orthopaedic partners were required to request disbursement of funds. Management has reviewed these balances and determined that they continue to meet the definition of a liability and will be disbursed upon request by the orthopaedic partners.

Adoption of New Accounting Standard

On September 1, 2023, the Organization adopted FASB Accounting Standards Update 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including accounts receivable. There was no material impact on the Organization's results of operations or financial condition upon adoption of the new standard.

**Note 2 – Financial Assets and Liquidity Resources**

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, 2024 the level of liquidity and reserves was not managed within the policy requirements.

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

**Note 2 – Financial Assets and Liquidity Resources (cont.)**

As of June 30, 2024, 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	\$ 77,117
Investments	15,624,036
Pledges receivable, current portion	631,231
Other receivables	12,584
Total financial assets, at year-end	<u>16,344,968</u>
Less:	
Net assets with donor restrictions - Purpose	(3,715,563)
Net assets with donor restrictions - Endowment, net of endowment assets held in non-current accounts	(12,802,814)
Allowance for doubtful pledges	<u>(100,000)</u>
Financial assets available to meet cash need for general expenditures within one year	<u>\$ (273,409)</u>

**Note 3 – Investments and Investment Return**

At June 30, 2024, 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	\$ 4,215,394	\$ 4,421,364
Domestic equity mutual funds	6,413,764	5,742,746
International equity mutual funds	2,619,721	2,332,858
U.S. government and agency securities	700,661	685,318
Alternative investment	1,674,496	1,500,000
	<u>\$ 15,624,036</u>	<u>\$ 14,682,286</u>

The following summarizes the investment return for the year ending June 30, 2024 and its classification in the Statement of Activities:

Interest and dividends	\$ 354,395
Net realized gains	649,758
Net unrealized gains	671,694
Investment fees	<u>(36,479)</u>
Total investment return	<u>\$ 1,639,368</u>

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
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**Note 3 – Investments and Investment Return (cont.)**

Statement of Activities

Investment return from operations	\$ 64,614
Investment return on endowment	<u>1,574,754</u>
Total investment return	<u>\$ 1,639,368</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 Foundations 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 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, 2024, 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, 2024.

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, at June 30, 2024.

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
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**Note 4 – Fair Value Measurements (cont.)**

*Investments at NAV*

The Foundation 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 Foundation'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 Foundation'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.

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 Foundation'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, 2024, 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, 2024.

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**Note 4 – Fair Value Measurements (cont.)**

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, 2024:

	Fair Value	Level 1	Level 2	Level 3
Fixed income mutual funds	\$ 4,215,394	\$ 4,215,394	\$ -	\$ -
Domestic equity mutual funds	6,413,764	6,413,764	-	-
International equity mutual funds	2,619,721	2,619,721	-	-
US government and agency bonds and bills	700,661	700,661	-	-
Charitable remainder trusts	2,742,892	-	-	2,742,892
Total assets in the fair value hierarchy	16,692,432	13,949,540	-	2,742,892
Investments reported at net asset value (NAV)	1,674,496	-	-	-
Total investments	\$18,366,928	\$13,949,540	\$ -	\$ 2,742,892

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

	Charitable Remainder Trusts
Balance June 30, 2022	\$ 2,755,405
Change in value, net of appreciation	(12,513)
Balance, June 30, 2024	\$ 2,742,892

**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 \$2,742,892 at June 30, 2024.

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
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**Note 5 – Charitable Remainder Trusts (cont.)**

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 partners 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.

**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 \$1,906,949 and at June 30, 2024.

**Note 7 – Pledges Receivable**

Pledges receivable as of June 30, 2024, represent unconditional promises to give and are due as follows:

Less than one year	\$ 631,231
One to five years	111,872
Five to ten years	3,000
Total pledge receivable	<u>746,103</u>
Less: allowance for doubtful pledges	(100,000)
Less: discount to net present value	<u>(22,086)</u>
Net pledge receivable	624,017
Less: Current portion, net	<u>(531,231)</u>
Noncurrent pledges receivable, net	<u><u>\$ 92,786</u></u>

The discount rate used in determining the net present value of pledges receivable was 8.50% at June 30, 2024.

For the year ended June 30, 2024, contributions of \$138,730, were received from Board members. Pledges receivable from Board members totaling \$54,000 were outstanding at June 30, 2024.

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**Note 8 – Property and Equipment**

Property and equipment at June 30, 2024, 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	(177,594)
Property and Equipment, Net	<u>\$ 4,160</u>

**Note 9 – Grants and Awards Payable**

Grant and awards payable on June 30, 2024 consists of:

Grants and awards payable	\$ 3,423,962
Discount to net present value	(39,462)
	<u>3,384,500</u>
Current portion	(3,039,281)
Noncurrent grants and awards payable	<u>\$ 345,219</u>

The discount rate used in determining the net present value was 8.50% at June 30, 2024.

**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 \$119,514 for the year ended June 30, 2024.

**Note 12 – Operating Leases**

The Foundation leases its existing office space which started at \$10,338 per month, and increases 4% yearly, through December 2024. This lease was not renewed and the Foundation moved to a smaller space. Rent expense for the year ended June 30, 2024 was \$157,948 which includes \$625 of variable expenditures.

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**NOTES TO FINANCIAL STATEMENTS**  
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**Note 12 – Operating Leases**

The following summarizes the line items in the balance sheet which include amounts for the office space operating lease as of June 30, 2024:

Operating lease right-of-use assets	\$ 369,641
Accumulated amortization	<u>(302,390)</u>
Net operating lease right-of-use assets	<u>\$ 67,251</u>
Current operating lease liabilities	\$ 68,020
Noncurrent operating lease liabilities	<u>-</u>
Total operating lease liabilities	<u>\$ 68,020</u>

The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2024:

Weighted-average remaining lease term (months)	
Operating leases	5.0
Weighted-average discount rate	
Operating leases	2.84%

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

2025	\$ 67,540
Less: interest	<u>(480)</u>
Present value of lease liabilities	<u>\$ 68,020</u>

The following summarizes the cash flow information related to the lease for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	<u>\$ 160,632</u>

**ORTHOPAEDIC RESEARCH AND EDUCATION FOUNDATION**  
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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, 2024:

**Purpose restricted**

Subject to expenditure for specified purpose:

Research grant funds	\$ 3,639,295
Orthopaedic partner grants	16,237
Income on endowment funds, restricted	60,031
	<u>3,715,563</u>

Subject to passage of time:

Beneficial interest in trusts	449,094
Total of net assets restricted for time or purpose	<u>\$ 4,164,657</u>

**Perpetual in Nature**

Endowments:

Original donor-restricted gift amount to be maintained in perpetuity:

Orthopaedic partner endowments	\$ 94,516
Grants and awards	12,708,298
Total perpetual endowments	<u>12,802,814</u>

Other Funds to be held in perpetuity

Beneficial interest in trusts to be held in perpetuity	1,744,606
Cash surrender value of life insurance policies - OREF	1,687,655
Total other funds to be held in perpetuity	<u>3,432,261</u>
Total net assets to be held in perpetuity	<u>\$ 16,235,075</u>
Total donor restricted net assets	<u>\$ 20,399,732</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, 2024 was \$15,888.

**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

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

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.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain in perpetuity. When such deficiencies occur, they are reported in net assets with donor restrictions, and the Organization adheres to its spending policy, which may limit distributions until the fund recovers. As of June 30, 2024, the funds were not underwater.

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**Note 14 – Endowment (cont.)**

Endowment net asset composition by type of funds as of June 30, 2024:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual Restrictions	
Donor-Restricted Endowment Funds:				
Donor-restricted endowment funds				
Board designated endowment funds	\$ -	\$ 60,031	\$ 12,802,814	\$ 12,862,845
Total Funds	2,394,089	-	-	2,394,089
	<u>\$ 2,394,089</u>	<u>\$ 60,031</u>	<u>\$ 12,802,814</u>	<u>\$ 15,256,934</u>

Endowment activity by type for the year ended June 30, 2024 was as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restrictions	Perpetual Restrictions	
Endowment net assets beginning of year	\$ 2,297,303	\$ (941,744)	\$ 12,196,969	\$ 13,552,528
Investment income, net of fees	35,192	275,894	-	311,086
Realized and unrealized gains in fair value of investments	142,954	1,120,714	-	1,263,668
Contributions	-	-	611,142	611,142
Pledge receivable discount adjustment	5,297	-	(5,297)	-
Appropriation of endowment assets for expenditure	(86,657)	(180,724)	-	(267,381)
Appropriation of endowment assets for expenditure designated to OP's and other organizations	-	(214,109)	-	(214,109)
Endowment net assets, end of year	<u>\$ 2,394,089</u>	<u>\$ 60,031</u>	<u>\$ 12,802,814</u>	<u>\$ 15,256,934</u>