

**Combined Audited  
Financial Statements**  
With Supplemental Information

**American Alliance of Orthopaedic Executives**  
**American Association of Orthopaedic Executives**

**December 31, 2021 and 2020**



**LEMLERGROUP**  
certified public accountants



# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
American Alliance of Orthopaedic Executives  
Indianapolis, Indiana

### **Opinion**

We have audited the accompanying combined financial statements (financial statements) of American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives (collectively AAOE), which comprise the combined statements of financial position as of December 31, 2021 and 2020, and the related combined statements of activities and changes in net assets (deficits), cash flows, and combined functional expenses for the years 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 combined financial position of AAOE as of December 31, 2021 and 2020, and the combined statements of activities and changes in net assets (deficits), cash flows, and combined functional expenses 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 AAOE 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 AAOE'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 Responsibilities 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.

### **Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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 AAOE'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 AAOE'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 Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements for the years ended December 31, 2021 and 2020. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements for the years ended December 31, 2021 and 2020 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Lemler Group, LLC  
Indianapolis, Indiana

March 18, 2022

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

## Combined Statements of Financial Position December 31, 2021 and 2020

	2021	2020
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 578,765	\$ 466,078
Accounts receivable	29,104	29,997
Prepaid expenses	95,981	115,155
Total current assets	703,850	611,230
<b>Fixed Assets</b>		
Leasehold improvements	8,600	8,600
Office equipment	67,886	81,342
Total fixed assets	76,486	89,942
Accumulated depreciation	(54,265)	(57,401)
Net fixed assets	22,221	32,541
<b>Long-term assets</b>		
Investments	591,026	551,520
Total long-term assets	591,026	551,520
Total Assets	\$ 1,317,097	\$ 1,195,291
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 43,755	\$ 52,593
Accrued payroll and taxes	88,799	97,564
Employer deferred taxes payable	12,418	25,618
Deferred revenue	798,495	987,964
Total Liabilities	943,467	1,163,739
<b>Net Assets</b>		
Without donor restrictions	373,630	31,552
Total Net Assets	373,630	31,552
Total Liabilities and Net Assets	\$ 1,317,097	\$ 1,195,291

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

## Combined Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2021 and 2020

	2021	2020
<b>Operating Revenue</b>		
Memberships	\$ 453,237	\$ 471,047
Conference	1,186,297	263,366
Education	58,173	116,166
Data warehouse	114,867	67,400
Operations	187,368	149,133
Interest and dividends	10,922	13,444
Other	126,850	15,333
Total operating revenue	2,137,714	1,095,889
<b>Operating Expenses</b>		
Program		
Membership	1,016,932	1,077,744
Conference	821,766	440,691
Education	110,902	174,995
Management and general	11,001	85,219
Fundraising	-	-
Total operating expenses	1,960,601	1,778,649
<b>Non-Operating Revenue (Expenses)</b>		
PPP loan forgiveness	141,290	-
Gains (losses) on investments	23,675	40,150
Total non-operating revenue (expenses)	164,965	40,150
<b>Net Increase (Decrease) In</b>		
<b>Net Assets Without Donor Restrictions</b>	342,078	(642,610)
<b>Net Assets Without Donor</b>		
<b>Restrictions, Beginning of Year</b>	31,552	674,162
<b>Net Assets Without Donor</b>		
<b>Restrictions, End of Year</b>	\$ 373,630	\$ 31,552

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

## Combined Schedules of Functional Expenses For the Years Ended December 31, 2021 and 2020

	Membership	Conference	Education	Total Program	Management and General	Fundraising	2021 Totals
Expenses							
Salaries and wages	\$ 400,639	\$ 167,334	38,857	\$ 606,830	\$ -	\$ -	\$ 606,830
Retirement	18,612	-	-	18,612	-	-	18,612
Other employee benefits	64,112	-	-	64,112	-	-	64,112
Payroll taxes	43,908	-	-	43,908	-	-	43,908
Legal	4,110	-	-	4,110	350	-	4,460
Accounting	13,844	-	1,070	14,914	2,654	-	17,568
Other professional fees	74,221	-	36,168	110,389	-	-	110,389
Advertising	24,556	20,546	225	45,327	635	-	45,962
Office	60,881	1,058	-	61,939	1,802	-	63,741
Information technology	89,980	86,971	34,582	211,533	2,000	-	213,533
Occupancy	53,314	-	-	53,314	-	-	53,314
Travel and transportation	1,495	12,599	-	14,094	-	-	14,094
Conferences	57,388	451,105	-	508,493	-	-	508,493
Depreciation	6,760	-	-	6,760	3,560	-	10,320
Insurance	3,352	7,155	-	10,507	-	-	10,507
Outside sales contract	99,760	74,998	-	174,758	-	-	174,758
Total expenses	<u>\$1,016,932</u>	<u>\$ 821,766</u>	<u>\$ 110,902</u>	<u>\$ 1,949,600</u>	<u>\$ 11,001</u>	<u>\$ -</u>	<u>\$ 1,960,601</u>

	Membership	Conference	Education	Total Program	Management and General	Fundraising	2020 Totals
Expenses							
Salaries and wages	\$ 463,178	\$ 195,000	98,520	\$ 756,698	\$ -	\$ -	\$ 756,698
Retirement	14,405	-	-	14,405	-	-	14,405
Other employee benefits	82,817	-	-	82,817	-	-	82,817
Payroll taxes	61,444	-	-	61,444	-	-	61,444
Legal	17,633	-	-	17,633	7,563	-	25,196
Accounting	32,814	-	2,525	35,339	5,794	-	41,133
Other professional fees	26,170	-	-	26,170	50,426	-	76,596
Advertising	35,746	14,249	675	50,670	-	-	50,670
Office	61,377	1,027	-	62,404	1,247	-	63,651
Information technology	133,281	16,864	70,934	221,079	13,557	-	234,636
Occupancy	38,565	-	-	38,565	-	-	38,565
Travel and transportation	2,379	8,687	-	11,066	-	-	11,066
Conferences	36,251	114,689	2,341	153,281	-	-	153,281
Depreciation	7,277	-	-	7,277	6,632	-	13,909
Insurance	2,388	4,775	-	7,163	-	-	7,163
Outside sales contract	62,019	85,400	-	147,419	-	-	147,419
Total expenses	<u>\$1,077,744</u>	<u>\$ 440,691</u>	<u>\$ 174,995</u>	<u>\$ 1,693,430</u>	<u>\$ 85,219</u>	<u>\$ -</u>	<u>\$ 1,778,649</u>



# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

## Combined Statements of Cash Flows For the Years Ended December 31, 2021 and 2020

	2021	2020
<b>Reconciliation of Changes in Net Assets to Net Cash Used In Operating Activities</b>		
Change in net assets	\$ 342,078	\$ (642,610)
<b>Adjustments to Reconcile Increase in Net Assets to Net Cash Used In Operating Activities</b>		
PPP loan forgiveness	(141,290)	-
Depreciation expense	10,320	13,909
(Gain) loss on sale of investments	(39,506)	(79,225)
Decrease (increase) in accounts receivable	893	(29,997)
Decrease (increase) in prepaid expenses	19,174	65,848
Increase (decrease) in accounts payable	(8,838)	(49,193)
Increase (decrease) in accrued payroll and taxes	(8,765)	(8,645)
Increase (decrease) in employer deferred taxes	(13,200)	25,618
Increase (decrease) in deferred revenue	(189,469)	(231,283)
<b>Net Cash Used In Operating Activities</b>	<b>(28,603)</b>	<b>(935,578)</b>
<b>Cash Flow From Investing Activities</b>		
Purchase of fixed assets	-	(3,524)
Proceeds from sale of investments	-	500,000
<b>Net Cash Provided By Investing Activities</b>	<b>-</b>	<b>496,476</b>
<b>Cash Flow from Financing Activities</b>		
Proceeds on PPP Loan	141,290	-
<b>Net Cash Provided By Financing Activities</b>	<b>141,290</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	112,687	(439,102)
<b>Cash and Cash Equivalents, Beginning of Year</b>	466,078	905,180
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 578,765</b>	<b>\$ 466,078</b>

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

### Note 1 – Nature of Activities

#### Background

The financial statements include the activity of American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives, collectively referenced as AAOE. AAOE's purpose is to promote the professional development of the orthopaedic manager, encourage stimulation of interest and research in orthopaedic practice management and the representation of concerns and ideas of a broad base of orthopaedic administrators on health care related issues.

Services provided to members include access to educational resources, forums, and webinars, an electronic data warehouse, recurring newsletters and informational mailings about the orthopaedic industry, representation on health care related issues, and networking opportunities.

American Alliance of Orthopaedic Executives (Alliance) was founded under the laws of Indiana in 2016.

American Association of Orthopaedic Executives (Association) was founded in 1969 and was later incorporated as a nonprofit organization under the laws of the State of Alabama in 1991.

#### Programs

AAOE has the following programs:

- Membership Activities – Provide members with practice management tools, resources, professional development, and network opportunities to keep up to date in the orthopaedic industry.
- Conferences – Provide conferences to members for continued education and updates in the orthopaedic industry.
- Education – Provide learning opportunities in the orthopaedic industry.

#### Fundraising

AAOE has no fundraising activities.

### Note 2 – Significant Accounting Policies

#### Basis for Combination

Significant intercompany transactions are eliminated during the combination process. Since Alliance and Association utilize the same board of directors and officers, management believes a combination is appropriate and presents a clearer financial presentation. All significant intercompany transactions and balances are eliminated in the combined financial statements.

#### Accounting Method

AAOE's financial statements are prepared on the accrual basis of accounting.

#### 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 revenues, expenses, and other changes during the reporting period. Actual results could differ from those estimates.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## **Note 2 – Significant Accounting Policies (continued)**

### Subsequent Events

AAOE evaluated subsequent events through March 18, 2022, which is the date the financial statements were available to be issued. This evaluation determined that there are no subsequent events that necessitated further disclosure in and/or adjustments to the accompanying financial statements.

### Cash and Cash Equivalents

For the purpose of the statements of cash flows, AAOE considers all highly liquid instruments with a maturity of three months or less to be considered cash and cash equivalents. The carrying amount of cash approximates fair value due to the type of investments and the maturity dates. There are no cash equivalents, except for money market funds.

### Accounts Receivable

Accounts receivable are stated at the amount AAOE's management expects to collect from outstanding balances. AAOE's management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts receivable. The allowance for doubtful accounts as of December 31, 2021 and 2020 is \$0 and \$0, respectively, due to subsequent collection on accounts receivable. AAOE's bad debt expense is \$0 and \$0, during the years ended December 31, 2021 and 2020, respectively.

### Fixed Assets

AAOE's fixed assets are stated at cost and depreciated over the estimated useful lives of three to ten years using the straight-line method. AAOE capitalizes items over \$500 that have a useful life of one year or more. Expenditures for additions are capitalized. When office equipment is sold, retired, or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income.

### Donated Assets

Donations of property and equipment and other assets are recorded as revenue at their estimated or quoted fair value at the date of donation. Such donations are reported as revenue without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets with explicit restrictions regarding their use and contributions of cash that must be used for specific purposes are reported as restricted revenue. If donor stipulations regarding how long these donated assets must be maintained are absent, AAOE reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. AAOE reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

### Employer Deferred Taxes Payable

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) allows employers to defer the deposit and payment of the AAOE's share of Social Security taxes. The payroll tax deferral period began on March 27, 2020 and ended December 31, 2020. The deferred deposits of the AAOE's share of Social Security taxes are due in two installments of at least 50% on December 31, 2021, and 2022 to avoid penalties and interest. At December 31, 2021 and 2020, AAOE's employer deferred tax payable amounts to \$12,418 and \$25,618, respectively. AAOE elected to present the entire amount as current liabilities.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## Note 2 – Significant Accounting Policies (continued)

### Deferred Revenue

Income from membership dues, conference income, and webinar sponsorships is deferred and recognized over the periods to which the income relates and when the events will occur. AAOE's deferred revenue consists of the following:

	<u>2021</u>	<u>2020</u>
Rent	\$ 8,435	\$ 13,102
Memberships	231,041	359,653
Conferences	382,503	538,375
Sponsorships and other	<u>176,516</u>	<u>76,834</u>
	<u>\$ 798,495</u>	<u>\$ 987,964</u>

### Net Assets

The financial statements are prepared in accordance with Financial Statements of Not-for-Profit Organizations. This requires, among other things, that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are classified as either without or with donor restrictions. The following class of net assets and a brief description is as follows:

*Net Assets Without Donor Restrictions* – These amounts are not subject to usage restrictions based on donor-imposed requirements and include general assets and liabilities of AAOE. These amounts also include previously restricted assets where restrictions are met or expired. The net assets without donor restrictions may be used freely at the direction of management to support AAOE's purpose and operations.

*Net Assets With Donor Restrictions* – These amounts are subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by management's actions. Certain assets may be restricted in perpetuity. When a restriction expires, the amount is reclassified to without donor restrictions and reported in the statement of activities as net assets released from restrictions. AAOE does not have net assets with donor restrictions at December 31, 2021 and 2020.

### Membership

AAOE's membership dues are for January 1<sup>st</sup> through December 31<sup>st</sup> and are billed in October for the following calendar year. All membership dues collected before December 31<sup>st</sup> are kept in a deferred membership account until January 1<sup>st</sup>, and then become recognized as revenue. AAOE does not record receivables, as there is no contractual obligation to join. Members who join in the middle of the calendar year are billed at a pro-rated amount for the remaining calendar year.

### Conferences

Conference revenue is accumulated in a deferred revenue account until the conference date. After the conference date, the amounts are recognized as revenue.

### Education

AAOE offers on demand webinars and educational meetings with doctors. Once amounts are collected, they are recognized as revenue. If education amounts are received in advance of services to be performed, AAOE classifies these amounts as deferred revenue until services are performed.

### Allocation of Functional Expenses

The costs of providing various programs and other activities are summarized on a functional basis in the statement of activities and changes in net assets and statement of functional expenses. Accordingly, AAOE's costs are allocated among the programs and supporting services, which benefit from those costs based on estimates of time and effort spent on the related activities.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## **Note 2 – Significant Accounting Policies (continued)**

### Advertising Expense

AAOE expenses advertising costs as they incur. For the years ended December 31, 2021 and 2020, general advertising expenses are \$25,416 and \$36,421, respectively, and conference advertising expenses are \$20,546 and \$14,249, respectively.

### Income Taxes

Alliance and Association are exempt from federal and state income tax under the provisions of Section 501(c)(6) and 501(c)(3), respectively, of the Internal Revenue Code; therefore, no provision for income taxes is made in the financial statements. Alliance is classified as an entity that is not a private foundation within the meaning of Section 509(a).

Generally accepted accounting principles in the United States require AAOE to examine its tax positions for uncertain positions. AAOE is not aware of any tax positions that are more likely than not to change in the next 12 months, or that would not sustain an examination by applicable taxing authorities. AAOE's policy is to recognize penalties and interest as incurred in its statements of activities as a component of operating expenses, which totaled \$0 for the years ended December 31, 2021 and 2020.

AAOE's federal and state income tax returns are subject to examination by the applicable tax authorities, generally for three years after the later of the original or extended due date.

### Reclassification

Certain accounts in the 2020 financial statements are reclassified for comparative purposes to conform with the presentation in the 2021 financial statements. Total assets, liabilities, net assets, and changes in net assets are unchanged due to these reclassifications.

## **Note 3 – Investments and Fair Value**

AAOE adopted the provisions of Fair Value Measurements (Fair Value) for measurement of investments that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair Value is defined as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. Interest earned is recorded on the accrual bases and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sales of investments are determined using the specific-identification method. Realized and unrealized gains and losses on investments are included in the statement of activities.

Fair Value establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that AAOE has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

## Note 3 – Investments and Fair Value (continued)

AAOE does not have any level 2 or 3 investments for the years ended December 31, 2021 and 2020. A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

- Short-term financial instruments – The fair value of short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximates their carrying value due to the short-term nature of these instruments. AAOE's investments primarily consist of money market funds, Federal Government and Corporate Bonds and stocks, and mutual funds. The investments are carried at fair value on quoted prices in active markets (all Level 1 measurements) and traded in active exchange markets, such as the New York Stock Exchange.

AAOE's investments consist of the following as of December 31, 2021 and 2020:

	<b>December 31, 2021</b>		
	Costs or Original Donated Value	Market Value	Unrealized Gain (loss)
Money Market Funds	\$ 19,946	\$ 19,946	\$ 0
Mutual Funds			
Fixed Income	342,055	343,438	1,383
Equity	<u>175,518</u>	<u>247,588</u>	<u>72,070</u>
	<u>\$ 537,519</u>	<u>\$ 610,972</u>	<u>\$73,453</u>
	<b>December 31, 2020</b>		
	Costs or Original Donated Value	Market Value	Unrealized Gain (loss)
Money Market Funds	\$ 24,960	\$ 24,960	\$ 0
Mutual Funds			
Fixed Income	296,927	309,877	12,950
Equity	<u>190,301</u>	<u>241,643</u>	<u>51,342</u>
	<u>\$ 512,188</u>	<u>\$ 576,480</u>	<u>\$64,292</u>

Included in gains (losses) on investments on the statements of activities and changes net assets are the following gains and losses for the years ended December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Unrealized Gain (Loss)	\$ 73,453	\$ 64,292
Realized Gain (Loss)	<u>(43,958)</u>	<u>(17,028)</u>
	<u>\$ 29,495</u>	<u>\$ 47,264</u>

## Note 4 – Retirement Plan

AAOE has a 401(k) plan that is available for all employees. Employees are eligible after three months of service. AAOE matches 100% of the first 4% that an employee contributes. During the years ended December 31, 2021 and 2020, AAOE made matching contributions of \$18,612 and \$14,405, respectively.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## Note 5 – Paycheck Protection Program

In February 2021, AAOE received funding in the amount of \$141,290, under the PPP round two funding. The PPP, established as part of the CARES Act, provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization.

At December 31, 2021, AAOE recognized revenue of \$141,290 as they determined eligible expenses and other conditions were met regarding the funding. AAOE received confirmation that the entire amount was forgiven on September 15, 2021.

## Note 6 – Operating Leases

AAOE entered into a non-cancelable operating lease arrangement on December 3, 2015, for office space. The lease terms began on January 1, 2016, with a term of 89 months expiring May 31, 2023. The lease agreement included five months of rent abatement for 2016. During the year ended December 31, 2020, AAOE received a six-month rental rate reduction of ½ the agreed upon rate. Due to this, the lease was amended and extended for an additional 3 months, expiring on August 31, 2023.

The lease is \$16.50 per square foot with rate increases each year. In accordance with accounting for leases under professional standards, AAOE amortized the total lease payments over the term of the lease. As of December 31, 2021 and 2020, AAOE has a deferred rent payable of \$8,435 and \$13,102, respectively. Rent expense amounts to \$48,779 and \$34,922, respectively, for the years ended December 31, 2021 and 2020.

AAOE has a copy machine lease for \$200 per month plus usage that expired in June 2020. AAOE has a new copy machine lease for \$353 per month plus usage for three years. This lease began on June 1, 2020. Copier lease expense amounts to \$4,534 and \$3,643 for the years ended December 31, 2021 and 2020, respectively, and is included in occupancy on the statement of functional expenses.

Future minimum lease payments on leases having non-cancelable terms beyond December 31, 2021 are as follows:

2022	\$ 57,946
2023	<u>38,514</u>
	<u>\$96,460</u>

## Note 7 – Related Party Transactions

The relationship between Alliance and Association is disclosed in Note 1. Below are some of the key elements from the shared service agreement between Alliance and Association:

- Payroll – Alliance has agreements with Association for payroll and payroll-related expenses. Association leases employees for daily operations from Alliance. Alliance charged \$38,857 and \$98,523, respectively, for payroll and payroll-related expenses for the years ended December 31, 2021 and 2020.
- Due to Alliance/Due from Association – Alliance is reimbursed for shared day-to-day operating expenses. Amounts owed to the Alliance from the Association for operating expenses as of December 31, 2021 and 2020 are \$111,821 and \$70,074, respectively.

# American Alliance of Orthopaedic Executives and American Association of Orthopaedic Executives

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## Note 8 – Liquidity Management

AAOE's liquidity management consists of the following quantitative and qualitative measurements:

Quantitative Measurement - AAOE's resources available for general use within one year at December 31, 2021 and 2020 were:

	<u>2021</u>	<u>2020</u>
Financial assets	\$ 703,850	\$ 611,230
Not available within one year (prepaid expenses)	(95,981)	(115,155)
Less current obligations	(943,467)	(1,163,739)
Financial assets available for general use within one	<u>\$ (335,598)</u>	<u>\$ (667,664)</u>

Qualitative Measurement - AAOE receives a significant amount of its support through memberships and conferences. Because the memberships and conferences require resources to be used in a particular manner or in a future period, AAOE must maintain sufficient resources to meet those responsibilities. Thus, financial assets may not be available for general expenditure within one year. In the course of business, management structures AAOE's financial assets to be available as its general expenditures, liabilities, and other obligations come due, and endeavors to maintain cash balances equal to approximately three months of non-conference operating expenses and deferred revenue.

## Note 9 – Concentrations and Commitments

### Concentration in Credit Risk

AAOE maintains cash balances in financial institutions. The bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The total uninsured balances in these accounts as of December 31, 2021 and 2020 are \$303,369 and \$164,011, respectively.

### Commitments

AAOE contracts hotels for future conferences. The contracts carry cancellation policies which can penalize AAOE under a set schedule in the event of cancellation. It is the intent of AAOE to honor all outstanding contracts. AAOE has contracted this to a third-party vendor, which expires on December 31, 2022.

## Note 10 – Coronavirus

In March 2020, the outbreak of COVID-19 (coronavirus) was recognized as a pandemic by the World Health Organization, and the outbreak has become widespread in the United States. The outbreak has had a notable impact on general economic conditions with many unknown effects. AAOE continues to monitor the impact of the coronavirus outbreak closely. The extent to which the coronavirus outbreak will impact its operations or financial results is uncertain.