



***INTERNATIONAL SOCIETY OF ARTHROSCOPY, KNEE
SURGERY AND ORTHOPAEDIC SPORTS MEDICINE
(A NONPROFIT CORPORATION)***

*Financial Statements
December 31, 2022 and 2021*

**INTERNATIONAL SOCIETY OF ARTHROSCOPY, KNEE
SURGERY AND ORTHOPAEDIC SPORTS MEDICINE
(A NONPROFIT CORPORATION)**
FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
International Society of Arthroscopy, Knee
Surgery and Orthopaedic Sports Medicine
Danville, California

Opinion

We have audited the accompanying financial statements of International Society of Arthroscopy, Knee Surgery and Orthopaedic Sports Medicine (a nonprofit corporation) (the "Society"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 financial position of the Society as of December 31, 2022 and 2021, 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 the Society 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.

Emphasis of Matter

As discussed in the notes to the financial statements, the Society adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842), and all subsequent ASU's that modified Topic 842, effective January 1, 2022. This adoption resulted in a right-of-use asset and operating lease liabilities on the balance sheet. Our opinion is not modified with respect to that matter.

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 the Society'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 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 the Society'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 the Society'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.

K.R.D., Ltd.

Schaumburg, Illinois
September 21, 2023

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STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

See notes to the financial statements.

	<u>2022</u>	<u>2021</u>
<i>ASSETS</i>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 451,529	\$ 511,471
Deposits	23,491	16,900
Accounts receivable	132,026	312,782
Prepaid expenses	130,344	43,158
	<u>737,390</u>	<u>884,311</u>
PROPERTY AND EQUIPMENT		
Computer equipment	26,851	20,836
Furniture	7,352	7,352
	<u>34,203</u>	<u>28,188</u>
Less: accumulated depreciation	(25,710)	(18,406)
	<u>8,493</u>	<u>9,782</u>
OTHER ASSETS		
Right of use asset - operating lease, net	129,090	-
Investments	10,733,955	13,208,922
	<u>10,863,045</u>	<u>13,208,922</u>
Total other assets	<u>\$ 11,608,928</u>	<u>\$ 14,103,015</u>
<i>LIABILITIES AND NET ASSETS</i>		
CURRENT LIABILITIES		
Accounts payable	\$ 439,760	\$ 451,601
Accrued expenses	-	84,149
Deferred revenue	889,594	584,452
Current maturities of operating lease liability	33,001	-
	<u>1,362,355</u>	<u>1,120,202</u>
Total current liabilities	<u>1,362,355</u>	<u>1,120,202</u>
OPERATING LEASE LIABILITY, NET OF CURRENT MATURITIES		
	<u>99,152</u>	<u>-</u>
Total liabilities	<u>1,461,507</u>	<u>1,120,202</u>
NET ASSETS		
Without donor restrictions		
Operating	10,097,863	12,934,713
Board designated, Research and Education	36,654	35,576
	<u>10,134,517</u>	<u>12,970,289</u>
With donor restrictions	<u>12,904</u>	<u>12,524</u>
Total net assets	<u>\$ 10,147,421</u>	<u>\$ 12,982,813</u>
	<u>\$ 11,608,928</u>	<u>\$ 14,103,015</u>

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STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2022 AND 2021

See notes to the financial statements.

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Membership dues	\$ 653,289	\$ -	\$ 653,289	\$ 649,578	\$ -	\$ 649,578
Combined meeting income	45,000	-	45,000	140,000	-	140,000
Registration income	106,231	-	106,231	107,233	-	107,233
Donations and grants	463,250	-	463,250	641,761	-	641,761
Investment income (loss)	(1,598,173)	380	(1,597,793)	570,733	328	571,061
Royalty income	22,926	-	22,926	38,320	-	38,320
Miscellaneous income						
Other income	9,063	-	9,063	4,756	-	4,756
Paycheck Protection Program loan forgiveness	-	-	-	320,125	-	320,125
Employee Retention Credit	-	-	-	135,480	-	135,480
	<u>(298,414)</u>	<u>380</u>	<u>(298,034)</u>	<u>2,607,986</u>	<u>328</u>	<u>2,608,314</u>
EXPENSES						
Program activities						
2021 combined meeting	-	-	-	861,701	-	861,701
Education	1,248,429	-	1,248,429	863,668	-	863,668
Publishing	542,106	-	542,106	640,788	-	640,788
Management and general	746,823	-	746,823	655,546	-	655,546
	<u>2,537,358</u>	<u>-</u>	<u>2,537,358</u>	<u>3,021,703</u>	<u>-</u>	<u>3,021,703</u>
CHANGE IN NET ASSETS	(2,835,772)	380	(2,835,392)	(413,717)	328	(413,389)
NET ASSETS AT BEGINNING OF YEAR	<u>12,970,289</u>	<u>12,524</u>	<u>12,982,813</u>	<u>13,384,006</u>	<u>12,196</u>	<u>13,396,202</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,134,517</u>	<u>\$ 12,904</u>	<u>\$ 10,147,421</u>	<u>\$ 12,970,289</u>	<u>\$ 12,524</u>	<u>\$ 12,982,813</u>

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**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022**

See notes to the financial statements.

	Education	Publishing	Management and General	Total
EXPENSES				
Travel and meetings	\$ 4,791	\$ -	\$ 3,069	\$ 7,860
Journal subscriptions	-	-	25,830	25,830
Executive	14,393	-	-	14,393
Audio visuals	31,411	-	-	31,411
Meetings and courses	35,101	-	-	35,101
Corporate and member development	56,622	-	-	56,622
Fellowship and scholarship	51,090	-	-	51,090
Editorial expenses, net	-	144,757	-	144,757
Newsletter	91,956	-	-	91,956
Insurance	-	-	10,017	10,017
Meeting space	60,277	-	-	60,277
Outside services	203,972	156	104,450	308,578
Postage and shipping	-	-	2,010	2,010
Professional fees	-	-	42,109	42,109
Meeting supplies	17,798	-	-	17,798
Lease expense	-	-	48,821	48,821
Bank charges and fees	3,525	-	37,404	40,929
Miscellaneous	-	-	6,297	6,297
Global Link online	3,979	-	-	3,979
Marketing	35,579	1,450	18,699	55,728
Computer	-	144	7,390	7,534
Payroll	307,072	307,072	307,072	921,216
Payroll tax	20,303	20,303	20,303	60,909
Employee benefits	68,222	68,222	68,222	204,666
Research grant	158,250	-	-	158,250
Shoulder consensus meeting	25,643	-	-	25,643
Meeting and Conference	38,922	-	-	38,922
Webinars	19,523	-	-	19,523
Supplies	-	-	2,004	2,004
Administrative fees	-	-	10,710	10,710
Professional development	-	-	9,987	9,987
Utilities	-	2	15,125	15,127
Depreciation	-	-	7,304	7,304
	<u>\$ 1,248,429</u>	<u>\$ 542,106</u>	<u>\$ 746,823</u>	<u>\$ 2,537,358</u>

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STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

See notes to the financial statements.

	2021				
	Meeting	Education	Publishing	Management and General	Total
EXPENSES					
Travel and meetings	\$ 31,365	\$ -	\$ -	\$ -	\$ 31,365
Journal subscriptions	-	-	84,845	-	84,845
Executive	-	20,601	-	-	20,601
Audio visuals	253,041	27,505	-	-	280,546
Meetings and courses	-	7,157	-	-	7,157
Consultant	-	-	-	2,348	2,348
Corporate and member development	-	48,244	-	-	48,244
Fellowship and scholarship	-	132,000	-	-	132,000
Editorial expenses, net	-	-	139,136	-	139,136
Newsletter	-	49,912	-	-	49,912
Insurance	-	-	-	8,834	8,834
Equipment rental	-	-	266	7,404	7,670
Committees	-	55,536	11,280	-	66,816
Meeting space	11,600	-	-	-	11,600
Outside services	204,708	91,710	5,831	119,735	421,984
Postage and shipping	7,856	-	-	1,891	9,747
Meeting supplies	14,213	-	-	-	14,213
Rent	-	-	-	33,416	33,416
Bank charges and fees	7,739	-	-	31,721	39,460
Miscellaneous	-	-	-	9,780	9,780
Global Link online	-	21,173	-	-	21,173
Marketing	40,900	3,382	2,482	18,136	64,900
CME expense	9,000	2,500	-	-	11,500
Payroll	195,487	293,402	293,402	293,402	1,075,693
Payroll tax	12,441	19,941	19,941	19,941	72,264
Employee benefits	33,117	64,605	64,605	64,605	226,932
Awards	-	26,000	19,000	-	45,000
Moving costs	-	-	-	4,770	4,770
Supplies	96	-	-	878	974
Administrative fees	-	-	-	9,578	9,578
Professional development	40,134	-	-	7,205	47,339
Utilities	4	-	-	14,039	14,043
Depreciation	-	-	-	7,863	7,863
	<u>\$ 861,701</u>	<u>\$ 863,668</u>	<u>\$ 640,788</u>	<u>\$ 655,546</u>	<u>\$ 3,021,703</u>

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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

See notes to the financial statements.

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,835,392)	\$ (413,389)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized and realized (gains) losses on investments	1,921,889	(305,039)
Depreciation	7,304	7,863
Right of use asset - operating lease amortization	38,442	-
Forgiveness of Paycheck Protection Program loan	-	(320,125)
Change in assets and liabilities		
Deposits	(6,591)	21,820
Accounts receivable	180,756	(173,724)
Prepaid expenses	(87,186)	421,329
Accounts payable	(11,841)	249,318
Accrued expenses	(84,149)	56,568
Deferred revenue	305,142	(33,770)
Operating lease liability	(35,379)	-
	<u>(607,005)</u>	<u>(489,149)</u>
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,015)	(1,988)
Investment purchases	(1,888,274)	(2,750,107)
Proceeds on sale of investments	2,441,352	2,873,787
	<u>547,063</u>	<u>121,692</u>
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	134,363
	<u>(59,942)</u>	<u>(233,094)</u>
CHANGE IN CASH AND CASH EQUIVALENTS		
	<u>511,471</u>	<u>744,565</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	<u>\$ 451,529</u>	<u>\$ 511,471</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		

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NOTES TO THE FINANCIAL STATEMENTS
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NATURE OF ACTIVITIES

The International Society of Arthroscopy, Knee Surgery and Orthopaedic Sports Medicine (the "Society") is a nonprofit corporation whose purpose is to advance the worldwide exchange and dissemination of education, research and patient care in arthroscopy, knee surgery and orthopaedic sports medicine. The Society's support comes mainly from member dues, meeting registrations, exhibit fees, and donations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accounting records and the accompanying financial statements have been maintained and prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Recently Adopted Pronouncement: Effective January 1, 2022, the Society adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases* ("Topic 842"). The core principle of the guidance in Topic 842 is that an entity should recognize a right of use ("ROU") asset and related lease liability for all leases, with a limited exception for short-term leases. Leases are classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. The Society adopted this standard utilizing the modified retrospective approach. The Society has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized.

The standard had a material impact on the Society's statement of financial position, but did not have an impact on the related statements of activities and changes in net assets, and cash flows for the year ended December 31, 2022. The most significant impact was the recognition of an ROU asset and a lease liability for an operating lease. The adopted standard resulted in the recognition of a ROU asset and a corresponding lease liability of \$167,532. At adoption, the measurement of the lease liability utilized the remaining minimum rental payments as defined under the previous accounting standard and the incremental borrowing rate as of January 1, 2022. No adjustment was required to the opening balance of net assets at the date of the initial application. Lease disclosures for 2021 were made under prior guidance in FASB ASC 840.

Basis of Presentation: Net assets without donor restrictions include resources that are not subject to donor-imposed restrictions plus those resources for which donor-imposed restrictions have been satisfied. Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. The Society has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor-imposed restrictions related to specific purposes or time periods. Satisfaction of net assets with donor restrictions (i.e., when the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as a reclassification from net assets with donor restrictions to net assets without donor restrictions. The Society reports contributions with a donor-imposed restriction whose restrictions are met in the same reporting period as net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents: The Society considers all highly liquid debt instruments purchased with a maturity of three months or less and used to support daily operations to be cash equivalents.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk: The Society's cash balances at various financial institutions exceed Federal Deposit Insurance Corporation ("FDIC") insured limits. Management does not believe this presents a significant risk to the Society.

Liquidity and Availability of Resources: The Society has a goal to maintain financial assets, which consist of cash and short-term investments, to meet cash needs for operations within one year. The Society has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In December 2020, the Society established a reserve fund policy to ensure the stability of the mission, programs, employment and ongoing operations of the Organization. The reserve established is equal to \$1.5 million representing six months of operating expense on average. To establish the reserve fund, the Society's Board of Directors has designated \$6 million, which represent 2 years of the operating budget. The reserve fund is included in the investment balance on the Statements of Financial Position at December 31, 2022 and 2021.

The Society's liquid financial assets are available within one year of the statement of financial position date for general expenditures are as follows:

	<u>2022</u>	<u>2021</u>
Reserve fund	\$ 5,008,933	\$ 5,769,277
Cash and cash equivalents	451,529	511,471
Accounts receivable	132,026	312,782
Less: donor-restricted net assets	<u>(12,904)</u>	<u>(12,524)</u>
	<u>\$ 5,579,584</u>	<u>\$ 6,581,006</u>

Accounts Receivable: The balance represents dues, contributions and royalty income due to the Society. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible 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 receivables from grants, royalties, contracts, and other sources. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to bad debts. There was no allowance for doubtful accounts at December 31, 2022 and 2021, as the Society believes all accounts receivable to be collectible.

The accounts receivable balance as of January 1, 2022 was \$312,782.

Prepaid Expenses and Deposits: Expenditures related to future meetings and events are recorded as prepaid expenses and are recognized as expenses when the meetings or events take place. Deposits held by others for future conferences and related costs are reflected as an asset and subsequently expensed when the conference or event takes place.

Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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NOTES TO THE FINANCIAL STATEMENTS
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Income and Gains (Losses) – Net Assets with Donor Restrictions: Investment income and gains restricted by donors are reported as with donor restrictions until the restrictions are satisfied. Investment losses are recorded as with donor restrictions to the extent that donor imposed restrictions on net appreciation of the investments have not been met before a loss occurs. Any remaining loss is reported as a decrease in unrestricted net assets. For the years ended December 31, 2022 and 2021, the Society incurred an investment gain on these donor-restricted net assets of \$380 and \$328, respectively, increasing the net assets with donor restrictions.

Deferred Revenue: Dues and other fees received in the current year that pertain to subsequent years are recorded as deferred revenue and are recognized in income in the year that the membership services are provided. Registration fees received for meetings to be held in the subsequent year are recorded as deferred revenue and are recognized in income the year the meetings are held.

Contributions: Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the absence or existence and nature of any donor restrictions.

Revenue Recognition: The Society recognizes revenue based on satisfaction of its performance obligations, with the exception of contributions. Contributions represent nonreciprocal transactions and are not subject to satisfaction of performance obligations.

The amount of revenue recorded reflects the consideration to which the Society expects to be entitled in exchange of goods or services. For membership dues, these amounts are based on fixed fees for the various membership levels. For publication royalties and program income, the specific charge is based on a set fee or actual cost to provide the member service. Revenue amounts are generally believed to be collectable, as the Society has experienced negligible bad debts historically. Revenue recognition policies for the Society's primary revenue sources are summarized as follows:

Membership Dues The Society offers memberships for a one-year term based upon each member's respective membership term throughout the year. The Society satisfies its performance obligation and recognizes revenue evenly over the membership term as its members simultaneously receive and consume the benefits over that timeframe.

Payments received for membership dues in advance of the Society satisfying its performance obligation are recorded as deferred revenue in the accompanying statements of financial position. In 2022, the Society recognized revenue of \$548,862 from amounts that were received prior to 2022. In 2021, the Society recognized revenue of \$549,682 from amounts that were received prior to 2021. Deferred membership dues totaled \$705,697 at December 31, 2022. The performance obligation surrounding this liability will be satisfied in 2023 through 2026.

Publication Royalties Royalties are received from the publisher of the *Journal of ISAKOS* ("JISAKOS") which is provided to members without additional charge as part of their membership benefits. Royalties are also received from a publisher of ISAKOS Books and Publications, for which the content is copyrighted by the Society. Additional copies are provided to members at a charge. Royalty revenue is recognized over time in conjunction with the monthly performance obligation. Royalty income totaled \$22,926 and \$38,320 in 2022 and 2021, respectively.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued):

Program Income Program income is comprised of annual meeting, educational events, and other activities. Payment for program events is usually due with 30 days of performance or invoicing. The Society recognizes revenue on the various programs at the point in time when the events take place. In 2022, the Society recognized revenue of \$11,600 from amounts received prior to 2022. In 2021, the Society recognized revenue totaling \$68,540 from amounts that were received prior to 2021. Deferred program income totaled \$183,897 at December 31, 2022. The performance obligation for this liability will be satisfied in 2023.

The nature, amount, timing, and uncertainty of revenue and cash flows for the aforementioned revenue categories can be impacted by economic factors, but the impact is generally limited, as there are no outside customers for the Society, only members, who pay fixed charges for membership dues and program services for various conferences and educational events. Uncertainties in the economy in general can have an impact on individual members and their ability to continue memberships, and participation in program activities.

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

Donated Services: A significant amount of donated services is contributed to the Society by various members to support the Society's programs and supporting services. These volunteer activities include participation on the Board of Directors and numerous other committees. The value of these services has not been included in the financial statements.

Leases: The Society determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, other current liabilities, and non-current lease liabilities on the statement of financial position.

ROU assets represent the Society's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Society's leases do not provide an implicit rate, the Society uses a risk free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Society's lease term may include options to extend or terminate the lease when it is reasonably certain that the Society will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Society's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Society has lease agreements with lease and non-lease components, which are generally accounted for separately. The Society accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued): The Society has elected to use the risk-free rate practical expedient, as permitted by the FASB, ASU No. 2021-09 *Discount Rate for Lessees That Are Not Public Business Entities* (Topic 842). In determining the discount rate used to measure the right of use asset and lease liability, the Society uses rates implicit in the lease, or if not readily available, the risk-free rate. The risk-free rate used by the Society is based on the daily treasury par yield curve rate for a five-year term.

The Society has elected to apply the short-term lease exemption to one of the Society's classes of underlying assets: storage space. In 2022, the Society had only one lease within this class of underlying asset that qualify for the exemption. The short-term lease cost recognized and disclosed for those leases in 2022 is \$9,028.

Tax Exempt Status: The Society is recognized as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, any income from certain activities not directly related to the Society's tax exempt purpose would be subject to taxation as unrelated business income.

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Management has evaluated subsequent events through September 21, 2023, the date the financial statements were available to be issued.

FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Below is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2022 and 2021.

- Mutual funds are valued at the net asset value (“NAV”) of shares held by the Society at year end.
- Common and preferred stocks are valued based on the closing market price of shares held by the Society at year end.
- Bonds are valued at the closing market values of identical or similar securities.
- Alternative investments include investments in hedge funds, real estate investment trusts and private equity pooled investment funds which engage in speculative trading in the futures and options markets and are valued at the fair value of the underlying financial instruments. For Level 3 valuation techniques, the Society uses unobservable inputs that reflect assumptions market participants would be expected to use in pricing the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available and are developed based on the best information available under the circumstances. In developing unobservable inputs, market participant assumptions are used if they are reasonably available without undue cost and effort. The fair values of the alternative investments have been provided by the management, administrator, or sponsor of each investment or a third-party source. The value represents their estimate of the value of the Society’s interest in the net assets of the investments.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its 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.

Fair value of assets measured on a recurring basis at December 31, 2022 and 2021, were as follows:

December 31, 2022	Fair Value	Level 1	Level 3
Mutual funds	\$ 4,137,127	\$ 4,137,127	\$ -
Equities	1,507,088	1,507,088	-
Fixed income	3,614,657	3,614,657	-
Alternative investments	1,475,083	-	1,475,083
Total investments	<u>\$ 10,733,955</u>	<u>\$ 9,258,872</u>	<u>\$ 1,475,083</u>

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FAIR VALUE MEASUREMENTS (CONTINUED)

December 31, 2021	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Mutual funds	\$ 5,245,369	\$ 5,245,369	\$ -
Equities	2,271,475	2,271,475	-
Fixed income	4,204,745	4,204,745	-
Alternative investments	<u>1,487,333</u>	<u>-</u>	<u>1,487,333</u>
Total investments	<u>\$ 13,208,922</u>	<u>\$ 11,721,589</u>	<u>\$ 1,487,333</u>

The following table sets forth a summary of changes in fair value of the Society's Level 3 assets for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 1,487,333	\$ 1,309,830
Purchases	46,229	10,409
Unrealized gains (losses) included in investment income	<u>(58,479)</u>	<u>167,094</u>
Balance at end of year	<u>\$ 1,475,083</u>	<u>\$ 1,487,333</u>

The fair value of these investments has been estimated using the net assets value per share of the investment.

The following tabulation summarizes the net yields of investment assets:

	<u>2022</u>	<u>2021</u>
Net unrealized and realized gains (losses) on investments	\$ (1,921,889)	\$ 305,039
Dividend and interest income, net of fees of \$69,345 and \$83,033 in 2022 and 2021, respectively	<u>324,096</u>	<u>266,022</u>
Net investment income for the year	<u>\$ (1,597,793)</u>	<u>\$ 571,061</u>

SEGREGATION OF NET ASSETS

Board Designated: An educational fund was established in 1993 by the Board of Directors with initial assets of \$13,107. Contributions are to be used specifically to fund scholarships, research and traveling fellowships related to the field of arthroscopy. The following represents changes in Board designated net assets:

	<u>2022</u>	<u>2021</u>
Beginning net assets	\$ 35,576	\$ 34,645
Interest income	<u>1,078</u>	<u>931</u>
Ending net assets	<u>\$ 36,654</u>	<u>\$ 35,576</u>

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SEGREGATION OF NET ASSETS (CONTINUED)

With Donor Restrictions: The Society has restricted net assets to support the following program:

	<u>2022</u>	<u>2021</u>
John J. Joyce Fund		
Award fund for exceptional publications	\$ <u>12,904</u>	\$ <u>12,524</u>

No amounts were expended during 2022 and 2021, for this donor-restricted fund.

COMMITMENTS

Publishing Contracts: The Society entered into a publishing contract with Springer-Verlag GmbH with a term expiring on December 31, 2023. Under the contract, Springer publishes books bearing the Society’s imprint. The Society receives 15% of the net price on the first 500 print copies sold, rising to 17.5% on the next 500 and then 20% after 1,000 copies sold. During the years ended for December 31, 2022 and 2021, the Society earned \$16,041 and \$17,502, respectively, under the contract. A total of \$16,041 and \$17,502 of these amounts is recorded as an accounts receivable as of December 31, 2022 and 2021, respectively.

The Society entered into a publishing contract with BMJ Publishing Group Limited (“BMJ”) to publish the Journal of ISAKOS (“JISAKOS”). The contract commences on January 1, 2016 and expired on December 31, 2021, and they publish six issues per year. Under the contract, all of the Society members are subscribers to JISAKOS, and the Society is billed for member subscriptions. In consideration, the Society receives a royalty calculated using a formula based on annual revenue. The Society earned a total of \$8,001 in 2021. This amount is recorded as a receivable as of 2021. The Society received an editor stipend in the amount of \$17,364 in 2021. This agreement was not renewed at expiration.

The Society entered into a publishing contract with Elsevier, Inc. (“Publisher”) to publish the Journal of ISAKOS (“JISAKOS”). The contract commenced on June 14, 2021 and expires on December 31, 2028. The Publisher will be responsible for the publication, promotion, and distribution of JISAKOS. JISAKOS will be published electronically six times a year with a minimum of 60 articles to be published. The Society did not pay expenses related to the contract nor receive any royalties, as the cost of the programs were greater than the royalties. The Society received an editor stipend in the amount of \$18,000 in 2022.

The Society entered into an editor agreement for JISAKOS commencing on January 1, 2015, and will expire on June 30, 2026. Under the agreement, the Society pays an annual stipend and expense reimbursement. Amounts paid to the editor for stipends and expense reimbursements totaled \$100,000 for each of the years ended December 31, 2022 and 2021.

The Society entered into a publishing contract with MultiView, inc. to provide website re-targeting, news briefs, website advertising, and onboarding services. The contract commenced on March 23, 2021 and expires on March 22, 2024. The Society receives 20% royalty for the weekly news brief, website re-targeting service, and audience targeting. The Society will receive a 30% royalty for revenue earned in association with the advertising platform. The society earned a total of \$6,884 in 2022. As of December 31, 2022, a total of \$1,155 was included in accounts receivable.

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COMMITMENTS (CONTINUED)

Administrative Contracts: The Society had an agreement with MCJ Consulting to provide management services that ended on May 31, 2021. Total management fees for December 31, 2021 were \$41,667.

The Society entered into an agreement with a consultant in 2020 for advisory services relating to publications and related products and content and other services. Consulting fees in conjunction with this agreement totaled \$85,000 and \$78,000 in 2022 and 2021, respectively. Consulting fees were \$6,500 per month from January 1, 2021 through December 31, 2021. The contract was extended and expired on December 31, 2022.

LEASE COMMITMENTS

Operating Lease: The Society leases office space in Danville, CA, which commenced on March 23, 2021 and expires on April 30, 2026. Monthly lease payments range from \$2,935 to \$3,632 over the lease term. The Society is obligated to pay all related real estate taxes, insurance, and maintenance costs for each respective lease. For the year ended December 31, 2022, lease expense totaled \$38,986 and is included in operating expenses on the statement of activities and change in net assets.

Rent expense on these leases totaled \$24,388 for the year ended December 31, 2021.

As of December 31, 2022, operating lease amounts reported were as follows:

Leased facilities, net	\$ <u>129,090</u>
Total operating ROU assets	\$ <u>129,090</u>
Operating lease liabilities – current	\$ 33,001
Operating lease liabilities – noncurrent	<u>99,152</u>
Total lease liabilities	\$ <u><u>132,153</u></u>

Future minimum rentals under the operating and finance leases are as follows:

<u>Years Ending December 31,</u>	<u>Operating</u>
2023	\$ 33,430
2024	41,900
2025	43,160
2026	<u>14,528</u>
Total minimum lease payments	133,018
Less: present value discount	<u>865</u>
Total operating lease obligation	\$ <u><u>132,153</u></u>

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LEASE COMMITMENTS (CONTINUED)

Other supplemental lease information as of December 31, 2022:

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

Operating cash flows for operating leases	\$	35,924
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Weighted average remaining lease terms (years):

Operating leases		3.33
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Weighted average discount rate:

Operating leases		.36%
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Lease expense consists of the following at December 31, 2022:

	<u>Amounts</u>
Operating lease	\$ 38,986
Short-term lease	<u>9,835</u>
	<u>\$ 48,821</u>

PAYCHECK PROTECTION PROGRAM LOANS

In May 2020 and April 2021, the Society obtained proceeds from the Small Business Administration (“SBA”) pursuant to the Paycheck Protection Program (the “PPP”) in the amounts of \$185,762 and \$134,363, respectively. The loans bore interest at 1.00% with deferred payment terms. All or a portion of the loans may be forgiven if the proceeds are used for eligible payroll costs and other expenses in accordance with the terms of the PPP. During 2021, the PPP loans were forgiven and \$320,125 was recorded as other income in the accompanying statement of activities and changes in net assets.

EMPLOYEE RETENTION CREDIT

The Employee Retention Credit is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. An eligible employer is one that experienced a significant decline in gross receipts during 2020 and the first quarter of 2021. This Employee Retention Credit applies to qualified wages paid after March 12, 2020, and before January 1, 2021. The maximum amount of qualified wages taken into account with respect to each employee for all calendar quarters is \$10,000, so that the maximum credit for an Eligible Employer for qualified wages paid to any employee is \$5,000. During the fiscal year ended December 31, 2021, the Society recorded \$135,480 related to the employee retention credit as other income in the accompanying statement of activities and changes in net assets.