

**AMERICAN GEM TRADE ASSOCIATION, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2022**

# CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8



**KELLOGG AND KELLOGG, P.C.**  
— CERTIFIED PUBLIC ACCOUNTANTS —

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
American Gem Trade Association, Inc.  
Dallas, Texas

We have audited the accompanying financial statements of American Gem Trade Association, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and change 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 American Gem Trade Association, Inc. 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 audits 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 American Gem Trade Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 American Gem Trade Association Inc.'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.

3116 WEST 5<sup>TH</sup> STREET, 2<sup>ND</sup> FLOOR, FORT WORTH, TEXAS 76107

PHONE 817.332.3877      FAX 817.332.3879

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 American Gem Trade Association Inc.'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 American Gem Trade Association, Inc.'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.

*Kellogg and Kellogg, P.C.*

Kellogg and Kellogg, P.C.  
Fort Worth, Texas  
October 11, 2023

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,652,586	\$ 2,668,855
Accounts receivable, net of allowance for doubtful accounts of \$0 for 2022 and 2021	160,543	21,224
Deferred trade show expenses	628,351	88,877
Prepaid and other assets	24,281	24,390
Total current assets	4,465,761	2,803,346
PROPERTY AND EQUIPMENT, net	44,259	57,759
RIGHT-OF-USE ASSET - OPERATING LEASE, net	474,180	-
TOTAL ASSETS	\$ 4,984,200	\$ 2,861,105
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 72,882	\$ 62,075
Accrued expenses	28,760	36,062
Deferred revenue	3,466,244	2,027,715
Customer deposits	59,713	85,332
Operating lease liability, current portion	47,153	-
Total current liabilities	3,674,752	2,211,184
LONG-TERM LIABILITIES		
Operating lease liability, net of current portion	441,953	-
NET ASSETS		
Without donor restrictions	867,495	649,921
Total net assets	867,495	649,921
TOTAL LIABILITIES AND NET ASSETS	\$ 4,984,200	\$ 2,861,105

The Notes to Financial Statements are an integral part of these statements.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
<b>SUPPORT AND REVENUES</b>		
Tucson trade show	\$ 2,206,255	\$ -
Las Vegas trade show	521,800	380,846
Denver trade show	76,207	54,709
Membership dues	399,550	388,633
Member services and promotion fees	57,792	108,394
Spectrum competition entry fees	89,938	82,548
Paycheck Protection Program loan forgiveness	-	318,031
Other	120,726	2,341
	3,472,268	1,335,502
<b>EXPENSES</b>		
Tucson trade show	1,216,731	357,436
Denver trade show	70,605	35,345
Las Vegas trade show	553,268	353,408
Other trade shows	41,741	1,746
Spectrum competition	249,830	146,863
Member services and promotion	290,872	282,247
General and administration	831,647	514,648
	3,254,694	1,691,693
Total expenses		
Change in net assets	217,574	( 356,191)
NET ASSETS, beginning of year	649,921	1,006,112
NET ASSETS, end of year	\$ 867,495	\$ 649,921

The Notes to Financial Statements are an integral part of these statements.



**AMERICAN GEM TRADE ASSOCIATION, INC.**  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Tucson Trade Show	Denver Trade Show	Las Vegas Trade Show	Other Trade Shows	Spectrum Competition	Member Services and Promotion	General and Administration	Total
Advertising and promotion	\$ 79,667	\$ 57,245	\$ 37,559	\$ -	\$ 30,676	\$ 16,110	\$ -	\$ 221,257
Bank charges	-	-	-	-	-	-	34,027	34,027
Consulting fees	7,699	-	-	-	9,329	-	59,168	76,196
Special Project	-	-	-	-	-	19,386	-	19,386
Depreciation	-	-	-	-	-	34,732	5,140	39,872
Jewelry Loss or Damage	-	-	-	-	35,821	-	-	35,821
Sponsorships and contributions	4,505	-	200	32,300	-	2,750	-	39,755
401(k) expenses	-	-	-	-	-	-	18,649	18,649
Directory expense	-	-	-	-	-	63	-	63
Insurance - employee	43,500	-	8,537	-	5,778	22,143	39,241	119,199
Insurance	4,557	-	3,474	-	4,243	-	26,507	38,781
Photography	-	-	-	-	9,721	978	-	10,699
Registration expense	76,903	-	-	-	-	-	-	76,903
Accounting fees	-	-	-	-	-	-	9,036	9,036
Computer services	2,225	-	-	-	-	-	38,999	41,224
Legal fees	2,380	-	7,429	-	800	-	41,007	51,616
Miscellaneous expenses	-	-	-	-	1,797	21,219	15,094	38,110
Newsletter expense	-	-	-	-	-	34,535	-	34,535
Office expense	2,281	-	89	358	3,478	94	30,182	36,482
Rent	-	-	-	-	-	-	82,086	82,086
Printing and stationary	12,841	-	-	-	335	-	757	14,512
Postage and shipping	4,417	2,144	-	1,410	27,062	470	5,557	41,361
Equipment and storage rental	6,203	-	-	-	-	5,815	6,593	18,611
Salaries and wages	196,248	-	48,840	-	25,309	110,161	370,517	751,075
Payroll taxes	15,723	-	3,636	-	1,965	8,803	22,309	52,436
Telephone	14,597	-	-	-	-	-	4,399	18,996
Travel	16,516	9,817	8,356	3,158	11,641	11,048	3	60,539
Security expense	122,155	-	-	-	18,556	-	2,350	143,061
Space fees	78,897	-	424,800	-	-	-	-	503,697
Other event expenses	128,975	-	-	4,515	29,134	-	-	162,624
Exhibit contractor	388,494	1,399	10,047	-	-	-	-	399,940
Awards and trophies	-	-	-	-	34,185	-	-	34,185
Dues and subscriptions	-	-	-	-	-	-	11,085	11,085
Seminars and meeting expenses	7,948	-	-	-	-	1,986	8,941	18,875
	<u>\$ 1,216,731</u>	<u>\$ 70,605</u>	<u>\$ 553,268</u>	<u>\$ 41,741</u>	<u>\$ 249,830</u>	<u>\$ 290,872</u>	<u>\$ 831,647</u>	<u>\$ 3,254,694</u>

The Notes to Financial Statements are an integral part of this statement.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Tucson Trade Show	Denver Trade Show	Las Vegas Trade Show	Other Trade Shows	Spectrum Competition	Member Services and Promotion	General and Administration	Total
Advertising and promotion	\$ 57,714	\$ 16,933	\$ 23,359	\$ -	\$ 21,858	\$ 33,020	\$ -	\$ 152,884
Bank charges	-	-	-	-	-	-	21,740	21,740
Consulting fees	-	-	-	-	-	11,635	-	11,635
Depreciation	-	-	-	-	-	-	29,167	29,167
401(k) expenses	-	-	-	-	-	-	6,644	6,644
Directory expense	-	-	-	-	-	38,180	-	38,180
Insurance - employee	47,819	-	10,764	-	6,729	25,878	44,568	135,758
Insurance	18,553	-	3,336	-	7,073	-	23,988	52,950
Photography	-	-	-	-	15,722	-	-	15,722
Registration expense	9	-	42,110	-	-	-	-	42,119
Accounting fees	-	-	-	-	-	-	31,882	31,882
Computer services	-	-	-	-	-	-	35,671	35,671
Legal fees	-	4,650	1,088	-	-	-	26,828	32,566
Miscellaneous expenses	-	-	-	225	-	520	5,295	6,040
Newsletter expense	-	-	-	-	-	26,815	-	26,815
Office expense	156	-	92	-	2,774	166	7,396	10,584
Rent	-	-	-	-	-	-	76,747	76,747
Printing and stationary	1,056	-	2,025	-	-	-	-	3,768
Postage and shipping	346	241	941	-	9,889	2,508	2,347	16,272
Equipment and storage rental	6,745	-	-	-	-	6,753	6,755	20,253
Salaries and wages	199,839	-	46,465	-	26,454	121,798	170,417	564,973
Payroll taxes	14,558	-	3,382	-	2,073	8,664	13,338	42,015
Telephone	4,345	-	13,460	-	-	1,016	6,937	25,758
Travel	2,416	6,669	12,581	821	1,866	3,759	-	28,112
Security expense	-	6,852	24,366	-	11,000	-	2,882	45,100
Space fees	-	-	76,000	700	-	-	-	76,700
Other event expenses	-	-	-	-	23,252	-	-	23,252
Exhibit contractor	3,880	-	93,439	-	-	-	-	97,319
Awards and trophies	-	-	-	-	18,173	-	-	18,173
Dues and subscriptions	-	-	-	-	-	-	2,046	2,046
Seminars and meeting expenses	-	-	-	-	-	848	-	848
	<u>\$ 357,436</u>	<u>\$ 35,345</u>	<u>\$ 353,408</u>	<u>\$ 1,746</u>	<u>\$ 146,863</u>	<u>\$ 282,247</u>	<u>\$ 514,648</u>	<u>\$ 1,691,693</u>

The Notes to Financial Statements are an integral part of this statement.



**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 217,574	(\$ 356,191)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	39,872	29,167
Forgiveness of Paycheck Protection Program loan	-	( 318,031)
Reduction in the carrying amount of right-of-use asset - operating lease	49,305	-
Changes in operating assets and liabilities		
Accounts receivables	( 139,319)	10,038
Deferred trade show expenses	( 539,474)	( 10,651)
Prepaid and other assets	109	59,926
Accounts payable and accrued expenses	16,279	( 4,367)
Customer deposits	( 25,619)	85,332
Deferred revenue	1,438,529	1,888,088
Operating lease liability	( 47,153)	-
Net cash provided by operating activities	1,010,103	1,383,311
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	( 26,372)	( 939)
Net cash used in investing activities	( 26,372)	( 939)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program loan	-	144,965
Net cash provided by financing activities	-	144,965
Net increase in cash and cash equivalents	983,731	1,527,337
Cash and cash equivalents, beginning of year	<u>2,668,855</u>	<u>1,141,518</u>
Cash and cash equivalents, end of year	<u>\$ 3,652,586</u>	<u>\$ 2,668,855</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Right-of-use asset and liability on operating lease	<u>\$ 523,485</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

## AMERICAN GEM TRADE ASSOCIATION, INC.

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – ORGANIZATION AND DESCRIPTION OF MISSION

American Gem Trade Association, Inc. (the "Association") is a nonprofit corporation incorporated in the state of New York and was founded in 1981. Its purpose is as follows:

- Represent the interests of the natural-colored gemstone and cultured and natural pearl industry in the United States and Canada.
- Promote, maintain, and perpetuate the highest possible ethical standards among its members and in the industry at large.
- Establish closer communications between all segments of the natural-colored gemstone and cultured and natural pearl industry and related industries.
- Educate members of the natural-colored gemstone and cultured and natural pearl industry and related industries in order to expand their knowledge of natural-colored gemstones and cultured and natural pearls.
- Create a greater awareness and knowledge of natural-colored gemstones and cultured and natural pearls and act as a source of information to the consuming public.
- To protect the natural-colored gemstone and cultured and natural pearl industry, related industries and the ultimate consumer from fraud, abuse, misrepresentation, and deceptive advertising.

The Association is primarily supported by revenues from trade shows (Tucson, Las Vegas and Denver), membership dues and fees for various membership services.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

**Basis of Presentation** – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

*Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has not designated any net assets for specific use.

*Net Assets with Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Presentation (continued)** – There are no net assets with donor restrictions as of December 31, 2022 and 2021.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between net assets. Any restricted contributions whose restrictions are met in the same reporting period are recorded as net assets without donor restrictions.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** – The Association recognizes revenue based on a consideration specified in a contract with a customer, and excludes amounts collected on behalf of third parties. The Association recognizes revenue when it satisfies a performance obligation by transferring control over a service to a customer.

Membership dues are billed for the calendar year and are recognized as revenue in equal monthly installments over the membership period. Receipts and direct expenditures relating to the annual trade shows are reported as revenues and expensed in the year in which the shows occur. Cash receipts in the current year relating to the next year's trade shows and dues are reported as deferred revenue. Likewise, expenses directly related to the next year's trade shows, which are incurred and/or paid in the current year, are recorded as deferred expenses.

**Fair Value of Financial Instruments** – The Association determines the fair value of financial instruments by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair values of financial instruments approximate their recorded values, due primarily to their short-term nature. The Association considers investments with maturities of 90 days or less when purchased to be cash equivalents.

**Cash and Cash Equivalents** – The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Property and Equipment** – Property and equipment are stated at cost. Depreciation is estimated using the straight-line method over the estimated useful lives of the assets. The lives of these assets can range from three to five years. Repairs and maintenance are charged to expense as incurred and major improvements are capitalized.

**Functional Allocation of Expenses** – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs, including postage and printing, salaries and benefits, and website management have been allocated among program and supporting services. Such allocations, specifically for salaries and benefits are determined by management based on estimates of time and effort. Generally, the Association records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage.



**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes** – The Association is exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(6), and as such, is subject to income taxes only on unrelated business income (UBI). The Association engages in certain activities not related to its exempt purpose. For the years ended December 31, 2022 and 2021, any such tax is estimated to be nominal.

FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement and classification of amounts relating to uncertain tax positions, accounting for and disclosure of interest and penalties, accounting in interim periods, disclosures and transition relating to the adoption of the accounting standard.

The Association's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to selling, general and administrative expense for tax penalties and a charge to interest expense for interest assessments during the period that it takes an uncertain tax position through resolution with the taxing authorities or the expiration of the applicable statute of limitations. The Association did not record any significant amounts related to penalties and interest during the years ended December 31, 2022 and 2021.

In the normal course of business, the Association is subject to examination by taxing authorities. The Association's tax returns for the years after December 31, 2018 are open, by statute, for review by authorities. However, at present, there are no ongoing income tax audits or unresolved disputes with various tax authorities.

**Advertising Costs** – The Association expenses advertising costs as they are incurred. The Association incurred approximately \$221,000 and \$153,000, respectively, for the years ended December 31, 2022 and 2021. Of those amounts approximately \$174,000 and \$98,000, respectively, relates to the promotion of the Tucson, Las Vegas and Denver trade shows.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Recently Adopted Accounting Standard** – In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requiring an entity to present contributed nonfinancial assets as a separate line item in the statement of revenues, expenses, and change in net assets, apart from contributions of cash and other financial assets. ASU 2020-07 includes additional disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The Association adopted the standard for the year ending December 31, 2022, and applied the standard on a retrospective basis. The new standard did not have a significant impact on the financial statements.

**Adoption of New Lease Standard** – Effective January 1, 2022, the Association adopted Accounting Standards Update (ASU) 2016-02, *Leases (ASC Topic 842)* and subsequent amendments. ASC 842 affects all companies that enter into lease arrangements, with certain exclusions under limited scope limitations. Under ASU 2016-02, an entity recognizes right-of-use assets and lease obligations on its balance sheet for all leases with a lease term of more than 12 months. Short term rentals under year-to-year leases or remaining lease terms of 12 months or less are exempt from being capitalized.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Adoption of New Lease Standard (continued)** – In adopting the new lease standard, the Association elected to use a transition method under which existing leases were measured and capitalized as of the date of adoption, January 1, 2022, in lieu of applying the standard retrospectively to January 1, 2021. Consequently, the 2021 financial statements and disclosures do not reflect the effects of implementing the new lease standard.

Additionally, as part of the implementation, the Association elected to use a package of optional practical expedients which permit the Association to avoid reassessing previous lease identifications within contracts, the existence of initial direct costs, and the lease classifications of any expired and existing leases. Moreover, in accordance with the expedients, all leases classified as operating leases under previous accounting standards are automatically classified as operating leases under the new standard, and all leases previously classified as capital leases are recorded as finance leases.

Leases recognized under the new standard include leases that were not capitalized under previous accounting standards, as well as certain other leases that were capitalized based on different criteria.

On January 1, 2022, the Association recorded in its January 1, 2022 consolidated statement of assets, liabilities and net assets a right-of-use asset and lease obligation for operating leases in the amount of \$523,485.

**Lease Policies** – The new standard requires that leases with a lease term of more than 12 months be classified as either finance or operating leases. Leases are classified as finance leases when the Association expects to consume a major part of the economic benefits of the leased assets over the remaining lease term. Conversely, the Association is not expected to consume a major part of the economic benefits of assets classified as operating leases.

The lease classification affects both the pattern and presentation of expense recognized in the consolidated statement of revenues, expenses and change in net assets, the categorization of assets and liabilities in the consolidated statement of assets, liabilities and net assets, and classification of cash flows in the consolidated statement of cash flows.

The Association has made a policy election not to capitalize certain short-term leases with a lease term of 12 months or less.

For finance leases, total lease cost is recorded on an accelerated basis and consists of two components: amortization expense related to the write-off of right-of-use assets, and interest expense from lease obligations. Interest expense is recorded using the effective interest method and right-of-use assets are amortized on a straight-line basis over the remaining lease term. For operating leases, total lease cost is measured and recorded on a straight-line basis over the lease term.

Non-lease components, such as common area maintenance (CAM) charges, are separated from lease components based on the terms of the related lease. Variable lease components consist of real estate taxes and insurance charges related to the real estate lease, and are recorded as expenses as incurred.

Lease obligations are measured and recorded at the present value of future lease payments using a discount rate. Because the Association generally does not have access to the rate implicit in each lease, lease obligations are measured using the incremental borrowing rate as the discount rate. The incremental borrowing rate is the rate that would be paid to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment.

The Association has elected to apply a single incremental borrowing rate of 5% to the office space lease classified as an operating lease.



**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Adoption of New Lease Standard (continued)*** – Right-of-use assets are generally measured and recorded at the sum of the lease obligation, any initial direct costs to consummate the lease, and any lease payments made on or before the commencement date.

**NOTE 3 – IMPACT OF COVID-19**

In 2019 a new coronavirus (“COVID-19”) was identified and on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The outbreak of COVID-19 and government responses created disruptions in financial markets and adversely impacted many industries and organizations. The Association was forced to cancel the 2021 Tucson and Las Vegas trade shows. The loss of these trades shows in 2021 had an adverse impact on the Association’s revenues, change in net assets, and operating cash flows.

***Coronavirus Aid, Relief and Economic Security Act (“CARES Act”)***

The CARES Act was signed into law on March 27, 2020 and was intended to provide economic relief to those impacted by the COVID-19 pandemic and includes various tax provisions addressing the carryback of net operating losses for specific periods, refunds of alternative minimum tax credits, and temporary modifications placed on the deductibility of net interest expense. Additionally, the CARES Act provided measures to enhance business’ liquidity through the U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loans, refundable employee retention credits, and the deferral of the employer-paid portion of social security taxes. The Association elected not to defer the employer-paid portion of social security taxes.

***PPP loan***

On May 1, 2020, the Association received a PPP loan from Bank of America, N.A. (“BOA”) in the amount of approximately \$173,000 under the CARES Act. The Association applied for forgiveness and was notified on January 22, 2021 that BOA and the SBA had forgiven the loan and all principal and interest were paid in full.

In January 2021, the U.S. Treasury Department reopened the PPP loan program for second-draw loans for borrowers who received funding in the first round as well as new first-time borrowers. The Association applied and received a second-draw PPP loan from BOA for approximately \$145,000. The Association applied for forgiveness and was notified on August 17, 2021 that BOA and the SBA had forgiven the loan and all principal and interest were paid in full.

Included in the statement of activities as Support and Revenues for the year ended December 31, 2021, is \$318,031 for the Paycheck Protection Program loan forgiveness.

***Employee Retention Credits***

As authorized by the Cares Act, during 2022, the Association claimed Employee Retention Credits totaling \$79,989 related to qualifying wages paid during 2021. The Association received the funds in September 2022 and included the revenues in Other Income for the year ended December 31, 2022. Laws and regulations concerning government programs, including the Employee Retention Credit established by the CARES Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Association’s claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Association.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Association has cash and accounts receivable that is available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. The Association's goal is to maintain its financial assets, which consist entirely of cash on hand to meet one year of normal operating expenses, which are on average, approximately \$1,000,000. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The following represents the Association's financial assets at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,652,586	\$ 2,668,855
Accounts receivable	<u>160,543</u>	<u>21,224</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,813,129</u>	<u>\$ 2,690,079</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Computer equipment	\$ 58,613	\$ 53,568
Furniture and fixtures	55,446	34,119
Software	<u>208,217</u>	<u>208,217</u>
	322,276	295,904
Less accumulated depreciation	( <u>278,017</u> )	( <u>238,145</u> )
	<u>\$ 44,259</u>	<u>\$ 57,759</u>

Depreciation expense was approximately \$40,000 and \$29,000 for the years ended December 31, 2022 and 2021, respectively.

**NOTE 6 – EMPLOYEE BENEFIT PLAN**

The Association adopted a 401(k) defined contribution plan in which employees are eligible to participate after 90 days of employment. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Association may make discretionary matching contributions of 25% of the employees' contributions. Discretionary contributions in excess of this amount are to be determined by the board of directors. For the years ended December 31, 2022 and 2021, the Association contributed approximately \$17,000 and \$5,000, respectively, to the plan.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – LEASES**

Amounts recognized as right-of-use assets related to operating leases are included in assets in the consolidated statement of assets, liabilities and net assets, while related lease liabilities are included in the current and long-term debt.

As of December 31, 2022, right-of-use assets and lease liabilities related to operating leases were as follows:

Right-of-use assets:	
Cost	\$ 523,485
Less: accumulated amortization	<u>49,305</u>
Net right-of-use assets	<u>\$ 474,180</u>
Lease liabilities:	
Current portion	\$ 47,153
Long-term portion	<u>441,953</u>
Total lease liabilities	<u>\$ 489,106</u>

**Description of leases:**

In September 2019, the Association amended its lease agreement for office space in Dallas, Texas. The term of the agreement is from July 1, 2020 through August 31, 2025. The lease has one option to renew for a 5 year term. Base rentals started at \$5,857 in July 2020, and escalate every 12 months beginning September 1, 2021, with the base rent set at \$6,436 for the period from September 1, 2024 through August 31, 2025. The base rent for the renewal term will be based at market rent, as stipulated in the lease agreement.

In the normal course of business, the Company leases storage space and miscellaneous rentals as needed on a short-term basis, typically on a month-to-month basis. For the years ended December 31, 2022 and 2021, short-term lease expense was approximately \$19,000 and \$20,000, respectively.

**Quantitative lease information:**

A summary of total lease cost, by component, and other lease information for the year ended December 31, 2022 follows:

Operating lease cost	\$ 82,086
Short-term lease cost	<u>18,611</u>
Total lease cost	<u>\$ 100,697</u>

Rental expense under the lease agreement for the year ended December 31, 2021 was approximately \$77,000.



**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – LEASES (continued)**Other lease information:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 72,601
Non-cash transactions:	
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 523,485
Weighted-average remaining lease term:	
Operating leases	7.67 years
Weighted-average discount rate:	
Operating leases	5%

Maturity Analysis and reconciliation of balance sheet:

A summary of the future lease payments for operating leases, reconciled to the lease obligations recorded at December 31, 2022 follows:

2023	\$ 74,337
2024	76,073
2025	77,230
2026	77,230
2027	77,230
Thereafter	<u>205,945</u>
Total minimum lease payments	588,045
Less effects of discounting	<u>98,939</u>
Lease obligations recorded at December 31, 2022	489,106
Less current portion	<u>47,153</u>
Long-term lease obligations	<u>\$ 441,953</u>

**NOTE 8 – COMMITMENTS**

In the ordinary course of business, the Association has entered into contracts with hotels for future planned conferences. These contracts contain penalty clauses for cancellation which could be material depending upon the particular contract and the date of cancellation. The penalties are based upon rooms reserved, anticipated hotel, food and beverage revenues and other damages.

**NOTE 9 – CONCENTRATIONS OF CREDIT RISK**

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivables. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Accounts receivables are unsecured and are continually evaluated by the Association for collectability. Allowances for potential losses are maintained, if considered necessary.

**AMERICAN GEM TRADE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – CONCENTRATIONS OF CREDIT RISK (continued)**

The Association maintains cash balances at various financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, cash balances may exceed this limit. The Association has not experienced any losses in such accounts and do not believe they are exposed to any significant risk of loss related to this.

Trade show revenue accounted for approximately 81% and 33% of the Association's revenue, gains and other support for the years ended December 31, 2022 and 2021, respectively. The loss of one of the trade shows could have a significant impact on the Association.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has reviewed and evaluated material subsequent events from the statement of financial position date of December 31, 2022 through the financial statements issue date October 11, 2023. All appropriate subsequent event disclosures, if any, have been made to the financial statements.