

**CULLMAN AREA CHAMBER OF COMMERCE**

**FINANCIAL STATEMENTS**

**FEBRUARY 29, 2020**

**CULLMAN AREA CHAMBER OF COMMERCE  
TABLE OF CONTENTS  
FEBRUARY 29, 2020**

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<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	6
Notes to the Financial Statements	7

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Cullman Area Chamber of Commerce

We have audited the accompanying financial statements of Cullman Area Chamber of Commerce (a nonprofit organization), which comprise the statement of financial position as of February 29, 2020, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cullman Area Chamber of Commerce as of February 29, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Warren Averett, LLC*

Birmingham, Alabama  
September 21, 2020

**CULLMAN AREA CHAMBER OF COMMERCE  
STATEMENT OF FINANCIAL POSITION  
FEBRUARY 29, 2020**

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**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 235,046
Certificates of deposit	73,355
Members' and other accounts receivable	80,223
Prepaid expenses and other assets	<u>15,606</u>

Total current assets 404,230

**PROPERTY AND EQUIPMENT, NET** 772,951

**TOTAL ASSETS** \$ 1,177,181

See accompanying notes to the financial statements.

**CULLMAN AREA CHAMBER OF COMMERCE  
STATEMENT OF FINANCIAL POSITION  
FEBRUARY 29, 2020**

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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 58,086
Deferred revenue	150,731
Current portion of long-term debt	<u>47,174</u>

Total current liabilities 255,991

**LONG-TERM DEBT**

174,127

**NET ASSETS**

Net assets without donor restrictions	532,491
Net assets with donor restrictions	<u>214,572</u>

Total net assets 747,063

**TOTAL LIABILITIES AND NET ASSETS**

\$ 1,177,181

See accompanying notes to the financial statements.

**CULLMAN AREA CHAMBER OF COMMERCE  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 29, 2020**

**NET ASSETS WITHOUT DONOR RESTRICTIONS:**

**REVENUES AND OTHER SUPPORT**

Membership dues	\$	206,692
Programs and events		450,074
Interest income		798
		657,564

**NET ASSETS RELEASED FROM RESTRICTIONS**

505,975

Total net assets without donor restrictions

1,163,539

**EXPENSES**

Advertising		6,848
Association fees		10,961
Automobile expense		4,193
Bad debt expense		15,669
Bank service fees		1,976
Depreciation		58,814
Dues and subscriptions		8,522
Equipment rental		4,250
Insurance		10,845
Interest		10,017
Miscellaneous expense		7,502
Network and technical support		21,744
Office supplies and postage		22,352
Payroll taxes		27,842
Professional fees		61,355
Programs and events		476,117
Repairs and maintenance		9,224
Retirement plan expense		12,813
Salaries, wages and benefits		398,386
Taxes and licenses		3,609
Utilities		36,372
		36,372

Total expenses

1,209,411

**CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS**

(45,872)

See accompanying notes to the financial statements.

**CULLMAN AREA CHAMBER OF COMMERCE  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED FEBRUARY 29, 2020**

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<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	
Lodging tax receipts	\$ 498,737
Net assets released from restrictions	<u>(505,975)</u>
Change in net assets with donor restrictions	<u>(7,238)</u>
<b>CHANGE IN NET ASSETS</b>	(53,110)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>800,173</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 747,063</u></u>

See accompanying notes to the financial statements.

**CULLMAN AREA CHAMBER OF COMMERCE  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED FEBRUARY 29, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (53,110)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	58,814
Change in members' and other accounts receivable	13,288
Change in prepaid expenses and other assets	38,637
Change in accounts payable	35,459
Change in accrued expenses and amounts withheld	(1,209)
Change in deferred revenue	<u>(142,365)</u>
Net cash used in operating activities	(50,486)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net change in certificates of deposit	<u>(307)</u>
Net cash used in investing activities	(307)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal payments on long-term debt	<u>(52,514)</u>
Net cash used in financing activities	<u>(52,514)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(103,307)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>338,353</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 235,046</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash paid during the year for interest	<u><u>\$ 10,017</u></u>

See accompanying notes to the financial statements.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Organization**

Cullman Area Chamber of Commerce (the Chamber) is a nonprofit organization formed to maintain and promote the quality of life and continued economic well-being for all persons in the Cullman, Alabama area. Members of the Chamber are from the city and surrounding area.

### **Financial Statement Presentation**

The Chamber reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions are those which are subject to variance power (the unilateral power of the Board of Directors to redirect the use of assets). The variance power allows the Board of Directors to modify donor instructions that are incapable of fulfillment or inconsistent with the needs of the community. As a result of variance power, revenue from membership dues and programs and events are classified as net assets without donor restrictions for financial statement purposes.

### **Net Assets With Donor Restrictions**

Net assets with donor restrictions primarily consist of lodging tax receipts whose use by the Chamber have been limited by legislation to a specific purpose. When a donor-imposed restriction expires or is otherwise satisfied, these net assets are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

### **Basis of Financial Statement Preparation**

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **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.

### **Cash and Cash Equivalents**

The Chamber includes cash equivalents (defined as investments having an original maturity of three months or less when purchased) in cash flows for each year. The Chamber maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Chamber has not experienced any losses in such accounts.

### **Certificates of Deposit**

Certificates of deposit consist of four certificates with local financial institutions with maturity dates ranging from to January 2021 to June 2021.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Members' and Other Accounts Receivable**

The allowance for doubtful accounts on members' and other accounts receivable is maintained in amounts estimated to provide adequate reserves to cover anticipated losses based on payment date and historical bad-debt experience and evaluation of periodic aging of the accounts. Based on management's review, an allowance has not been recorded as of February 29, 2020.

**Pledged Contributions**

Unconditional promises to give are reported as receivables and recognized as revenue when the pledge is made. The Chamber had no unconditional promises to give as of February 29, 2020.

**Deferred Revenue**

Prepaid membership dues and other programs and events for the next fiscal year are treated as deferred revenue and classified as liabilities on the statements of financial position. Such deferred revenue is recognized as revenue when earned.

**Property and Equipment**

Property and equipment is carried at cost less accumulated depreciation and includes expenditures which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renovations are charged to expense as incurred. When property and equipment is retired or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts, and the gain or loss on the disposition is credited or charged to the change in net assets.

The Chamber provides for depreciation using the straight-line method designed to amortize costs over estimated useful lives as follows:

<b>Item</b>	<b>Estimated Useful Life</b>
Equipment	5 years
Furniture and fixtures	5 - 15 years
Building	40 years

**Income Taxes**

The Chamber is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code; accordingly, no provision for federal income taxes has been included in the accompanying financial statements.

The Chamber applies the provisions of the Accounting Standards Codification (ASC), relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service (IRS) examination or upon examination by state taxing authorities. The Chamber has determined that it does not have any positions at February 29, 2020, that it would be unable to substantiate. The Chamber has filed tax returns for all years through February 28, 2019.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Revenue Recognition from Members and Program and Events**

Membership dues revenue from contracts with members for annual dues is reported at the amount that reflects the consideration to which the Chamber expects to be entitled in exchange for providing membership to its members. Revenue is recognized as performance obligations are satisfied, which is ratably over the membership term. New members are billed a prorated share of their annual membership if their membership starts after March. Any unearned amounts for memberships payments received are included in deferred revenue.

The Converging for Success Program revenue and Total Resource Campaign revenue are separate performance obligations for community members that are used to make the Cullman area an ideal place to live, work, operate a business and raise a family. Revenue is recognized as performance obligations are satisfied, which is over time. Any unearned amounts for payments received for these program and events are included in deferred revenue.

Other program and events revenue is recognized when earned, which is at the time of those programs or events or when the services are provided.

**Lodging Tax Receipts**

The proceeds of the 5% lodging tax levied by the State of Alabama Legislature are remitted to the Chamber by the Cullman County Commission. The Chamber will use 40% of the proceeds for the purpose of developing and promoting tourism and conventions, and 20% will be used for economic and industrial development purposes in the county. The Chamber recognizes these receipts as donor restricted net assets when they are received from the Cullman County Commission. The remaining 40% is to be used as follows: 30% of the remaining amount will be used for the purpose of developing and promoting tourist attractions and events in the county, and 70% is designated to fund debt entered into by the Cullman County Commission in order to fund the 222 Interchange Project. The Chamber entered into an agreement with the Cullman County Commission to help fund the 222 Interchange Project during fiscal year 2014. In 2020, the Chamber received \$692,690 in lodging tax receipts, of which \$193,953 was remitted to fund the 222 Interchange Projects debt. The Chamber's obligation began on March 1, 2013, and will cease March 1, 2023. In the event the loan is paid in full prior to the maturity date of the ten-year period, the monthly distributions required from the Chamber of Commerce for this project will cease.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**In-Kind Contributions and Exchange Transactions**

Volunteers contribute significant amounts of time to the Chamber's program services, administration and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by Accounting Standards Codification Topic 958, *Not-For-Profit Entities*.

The Chamber records exchanged professional services at the respective fair values of the services received if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Chamber. Goods exchanged for sponsorships are recorded at fair value at the date the goods are provided. Exchanges recorded for goods and specialized professional services totaled \$29,894 during the year ended February 29, 2020.

**Advertising Expense**

Advertising and sales promotion costs are expensed as incurred. Advertising expense totaled \$6,848 for the year ended February 29, 2020.

**Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through September 21, 2020.

**Functional Allocation of Expenses**

The costs of providing the various programs and support services have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. The natural classification detail of expenses by function is reflected in Note 8. Most expenses have been allocated among the various functions based on time and effort. Some expenses relate to more than one function and must be allocated consistently on a reasonable basis. These expenses are allocated on a usage basis.

**Recently Adopted Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces numerous requirements in U.S. generally accepted accounting principles, including industry-specific requirements and provides entities with a single revenue recognition model for recognizing revenue for contracts with customers. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Chamber adopted this standard on March 1, 2019, and there were no significant changes to the financial statements upon adoption of this ASU.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The following represents the Chamber’s revenues disaggregated by revenue source as of February 29, 2020:

Membership dues	\$ 206,692
Programs and events	450,074
Lodging tax receipts	<u>505,975</u>
	<u><u>\$ 1,162,741</u></u>

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with new guidance intended to increase transparency and comparability among organizations relating to leases. Lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the statements of income and cash flows; however, substantially all leases will be required to be recognized on the balance sheet. The standard update will also require quantitative and qualitative disclosures regarding key information about leasing arrangements. The new standard will become effective the fiscal year beginning March 1, 2022. The Chamber is currently evaluating the impact of this document to the consolidated and combined financial statements.

**2. PROPERTY AND EQUIPMENT**

A summary of property and equipment as of February 29, 2020, is as follows:

Equipment	\$ 53,647
Furniture and fixtures	172,255
Building	<u>1,230,692</u>
	1,456,594
Less accumulated depreciation	<u>683,643</u>
	<u><u>\$ 772,951</u></u>

Depreciation expense was \$58,814 for the year ended February 29, 2020.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**3. LONG-TERM DEBT**

Long-term debt consists of the following at February 29, 2020:

Note payable – financial institution, secured by real estate, equipment and furniture. The note is due in monthly installments of \$3,873, including interest at 3.4%. The outstanding balance at February 29, 2020, is \$195,415, of which \$39,165 is current. The note is set to mature in July 2025.

Note payable – financial institution, secured by equipment. The note is due in monthly installments of \$761, including interest at 5.04%. The outstanding balance at February 29, 2020, is \$25,886, of which \$8,009 is current. The note is set to mature in April 2023.

Following is a summary of principal maturities on long-term debt for each of the next five fiscal years, thereafter and in the aggregate:

2021	\$ 47,174
2022	48,981
2023	50,835
2024	42,578
2025	<u>31,733</u>
	<u>\$ 221,301</u>

**4. RELATED PARTY TRANSACTIONS**

The Chamber had related party receivables totaling \$1,318 at February 29, 2020. These receivables relate to funds contributed from the Cullman Area Chamber of Commerce Foundation to fund Chamber programs and are included in prepaid expenses and other assets on the statement of financial position.

**5. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at February 29, 2020:

Cash and cash equivalents and accounts receivable:

Lodging tax and Total Resource Campaign (TRC) receivables (restricted for purpose)	<u>\$ 214,572</u>
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**6. DEFINED CONTRIBUTION PLAN**

The Chamber has a defined contribution salary deferral plan covering substantially all employees. Under the plan, employees are allowed to defer up to 15% of their salaries. The Chamber contributes 4% of compensation of all employees and uses amounts forfeited by employees as needed to supplement the contribution. The amount contributed by the Chamber for the year ended February 29, 2020, totaled \$12,813.

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

**7. OPERATING LEASES**

The Chamber leases equipment under operating leases which expire in 2023. Total rent expense for 2020 was \$4,250. Future minimum lease payments under the leases with initial or remaining noncancelable lease terms in excess of one year as of February 29, 2020, are as follows:

2021	\$ 4,248
2022	4,248
2023	708
	<u>\$ 9,204</u>

**8. FUNCTIONAL EXPENSES**

Functional expenses consisted of the following during the year ended February 29, 2020:

	<b>General Fund</b>	<b>Tourism Program</b>	<b>Economic Development Program</b>	<b>Total</b>
Advertising	\$ 4,860	\$ 496	\$ 1,492	\$ 6,848
Association fees	3,045	3,958	3,958	10,961
Automobile expense	2,357	100	1,736	4,193
Bad debt expense	15,669	-	-	15,669
Bank service fees	1,060	916	-	1,976
Depreciation	33,930	12,442	12,442	58,814
Dues and subscriptions	3,946	2,288	2,288	8,522
Equipment rental	4,250	-	-	4,250
Insurance	3,114	3,469	4,262	10,845
Interest	4,349	2,834	2,834	10,017
Miscellaneous expense	5,297	1,214	991	7,502
Network and technical support	7,248	7,248	7,248	21,744
Office supplies and postage	11,903	4,912	5,537	22,352
Payroll taxes	7,260	7,891	12,691	27,842
Professional fees	20,200	24,540	16,615	61,355
Programs and events	234,697	89,717	151,703	476,117
Repairs and maintenance	3,248	2,988	2,988	9,224
Retirement plan expense	703	3,873	8,237	12,813
Salaries, wages and benefits	77,644	91,413	229,329	398,386
Taxes and licenses	1,203	1,203	1,203	3,609
Utilities	12,371	12,000	12,001	36,372
	<u>\$ 458,354</u>	<u>\$ 273,502</u>	<u>\$ 477,555</u>	<u>\$ 1,209,411</u>

**CULLMAN AREA CHAMBER OF COMMERCE  
NOTES TO THE FINANCIAL STATEMENTS  
FEBRUARY 29, 2020**

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**9. LIQUIDITY**

The schedule below reflects the Chamber's financial assets as of February 29, 2020:

Financial assets consist of:

Cash and cash equivalents	\$ 235,046
Certificates of deposit	73,355
Members' and other accounts receivable	<u>80,223</u>
Financial assets, at fiscal year end	388,624
Less: assets unavailable for general expenditures within one year:	
Due to donor-imposed purpose or time restrictions	<u>(214,572)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 174,052</u></u>

As a part of the Chamber's liquidity management plan, cash is invested in either money market accounts or certificates of deposits.

**10. SUBSEQUENT EVENT**

Subsequent to year end, the coronavirus pandemic along with the government responses to attempt to control the spread of the pandemic has created a disruption in the global supply chains. This has triggered a global economic slowdown which is adversely impacting many industries and members that support the Chamber. It is currently uncertain as to how long this pandemic could impact the economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact. This pandemic presents material uncertainty and risk that could negatively impact the Chamber and its future performance and financial results. Certain Chamber events have been postponed due to social distancing guidelines, and the Chamber's staffing has been scaled back in response to these postponements.