

**CORONADO HISTORICAL ASSOCIATION**  

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**AND CORONADO MUSEUM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**



**Leaf & Cole, LLP**  
*Certified Public Accountants*

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

## **Independent Auditor's Report**

To the Board of Directors  
Coronado Historical Association, Incorporated

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Coronado Historical Association, Incorporated, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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.

### ***Auditor's 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 auditor's 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 auditor considers 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 Coronado Historical Association, Incorporated as of June 30, 2017, 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.

**Other Matter**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of functional expenses for the year ended June 30, 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP

San Diego, California  
April 20, 2018

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2017**

**ASSETS**

**Current Assets:** (Notes 2 and 4)

Cash and cash equivalents	\$ 196,205
Accounts receivable, net	8,504
Contributions receivable, net	4,983
Inventory	25,272
Prepaid expenses	2,533
Total Current Assets	237,497

**Noncurrent Assets:** (Notes 2, 3, 5 and 6)

Deposits	18,000
Property and equipment, net	669,153
Restricted cash and investments:	
Board designated quasi-endowment	1,034,645
Endowment funds	115,273
Total Noncurrent Assets	1,837,071

**TOTAL ASSETS** **\$ 2,074,568**

**LIABILITIES AND NET ASSETS**

**Current Liabilities:** (Note 2)

Accounts payable and accrued expenses	\$ 15,600
Payroll and related liabilities payable	10,843
Deferred revenue	3,600
Total Current Liabilities	30,043
Total Liabilities	30,043

**Commitment** (Note 9)

**Net Assets:** (Notes 7 and 8)

Unrestricted:	
Undesignated	849,026
Board designated quasi-endowment	1,034,645
Total Unrestricted	1,883,671
Temporarily restricted	99,546
Permanently restricted	61,308
Total Net Assets	2,044,525

**TOTAL LIABILITIES AND NET ASSETS** **\$ 2,074,568**

The accompanying notes are an integral part of the financial statements.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted Operations	Temporarily Restricted	Permanently Restricted	Total
<b><u>Support and Revenue:</u></b>				
Contracts for services	\$ 381,350	\$ 3,500	\$ -	\$ 384,850
Event income	156,111	-	-	156,111
Museum store sales	135,733	-	-	135,733
Investment income	113,332	20,017	-	133,349
Contributions	55,766	62,658	-	118,424
Membership dues	96,890	-	-	96,890
Education	78,993	-	-	78,993
Rental income	75,788	-	-	75,788
Artist fees	56,462	-	-	56,462
Net assets released from restrictions	43,227	(43,227)	-	-
<b>Total Support and Revenue</b>	<b>1,193,652</b>	<b>42,948</b>	<b>-</b>	<b>1,236,600</b>
<b><u>Program and Supporting Services:</u></b>				
<b>Program Services:</b>				
Museum and exhibits	254,944	-	-	254,944
Museum store	158,974	-	-	158,974
Education	261,370	-	-	261,370
Visitor center	43,469	-	-	43,469
Art Walk	20,407	-	-	20,407
Cultural events	11,038	-	-	11,038
<b>Total Program Services</b>	<b>750,202</b>	<b>-</b>	<b>-</b>	<b>750,202</b>
<b>Supporting Services:</b>				
Management and general	211,860	-	-	211,860
Fundraising	61,066	-	-	61,066
<b>Total Supporting Services</b>	<b>272,926</b>	<b>-</b>	<b>-</b>	<b>272,926</b>
<b>Total Program and     Supporting Services</b>	<b>1,023,128</b>	<b>-</b>	<b>-</b>	<b>1,023,128</b>
<b><u>Other Expenses:</u></b>				
Rental expense	75,788	-	-	75,788
Event expenses	50,134	-	-	50,134
<b>Total Other Expenses</b>	<b>125,922</b>	<b>-</b>	<b>-</b>	<b>125,922</b>
<b>Total Expenses</b>	<b>1,149,050</b>	<b>-</b>	<b>-</b>	<b>1,149,050</b>
Change in Net Assets	44,602	42,948	-	87,550
Net Assets at Beginning of Year	1,839,069	56,598	61,308	1,956,975
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,883,671</b>	<b>\$ 99,546</b>	<b>\$ 61,308</b>	<b>\$ 2,044,525</b>

The accompanying notes are an integral part of the financial statements.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Cash Flows From Operating Activities:**

Change in net assets	\$ 87,550
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	53,066
Net realized and unrealized gains on investments	(111,401)
<b>(Increase) Decrease in:</b>	
Accounts receivable, net	(817)
Contributions receivable, net	(372)
Inventory	7,369
Prepaid expenses	(100)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued expenses	5,798
Payroll and related liabilities payable	(1,392)
Deferred revenue	3,600
Net Cash Provided by Operating Activities	43,301

**Cash Flows From Investing Activities:**

Investment purchases and sales, net	(24,666)
Purchase of property and equipment	(41,372)
Net Cash Used in Investing Activities	(66,038)

Net Decrease in Cash and Cash Equivalents (22,737)

Cash and Cash Equivalents at Beginning of Year 218,942

**CASH AND CASH EQUIVALENTS AT END OF YEAR** **\$ 196,205**

The accompanying notes are an integral part of the financial statements.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1 - Organization:**

The Coronado Historical Association, Incorporated (“CHA”), a non-profit 501(c)(3) charitable organization, was founded in 1969 to help people understand and appreciate Coronado’s unique history, art, architecture, and historical resources. CHA continually works towards these goals and brings the history of Coronado to the community. In our state-of-the-art archives, we are carefully preserving everything from 1880s newspapers to vintage garments and over 20,000 photographs. In our Museum of History & Art, we bring Coronado’s history to life through fascinating permanent exhibits and changing displays.

**Mission**

Our mission is *to encourage and promote the appreciation, preservation, and understanding of Coronado's unique history, culture and historical resources to enhance the essence of our unique village community.*

The following is a brief description of CHA’s programs:

**Education and Outreach**

In support of our mission, CHA has a special focus on educational programs and outreach. Besides a year-round schedule of public lectures and other thought-provoking programs for adults, such as a Preservation Symposium every spring (co-presented with other leading Coronado organizations), the Coronado Unified School District recently designated CHA to present local Coronado history, with our museum staff and trained volunteers teaching students in the schools, as part of their 3<sup>rd</sup> grade history curriculum. We also present two large public events every year—the hugely successful Historic Home Tour on Mother’s Day, and the Coronado Art Walk in September.

**Coronado Visitor Center**

The City of Coronado Visitor Center is a partnership between CHA and the City of Coronado. Located in the heart of Coronado (at 1100 Orange Avenue), our Visitor Center is staffed with knowledgeable Ambassadors and stocked with an array of free resources to help visitors and residents experience Coronado in a unique way. Whether in Coronado for leisure, business or a special event; the Visitor Center has resources to help make each visit special.

The Visitor Center has a team of Docents who lead two tours: The Hotel del Coronado Tour and the Heritage Walk. The Hotel del Coronado Tour is offered five days a week and represents a partnership between CHA and the Hotel Del; the tour script is even written by the Hotel Historian. The Heritage Tour includes the Hotel Del for a portion of the tour but also explores downtown Coronado, Ocean Blvd, Star Park and other points of interest. Both tours are 90 minutes long.

The Visitor Center responds to emails and calls from all over the world requesting information about Coronado. CHA works with businesses and community organizations to promote their efforts. Additionally, CHA works closely with other tourism agencies, including the San Diego Tourism Authority, the Coronado Chamber of Commerce, Coronado Tourism Improvement District and Coronado Main Street to collaboratively promote the one-of-a-kind community we call Coronado.



**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 1 - Organization: (Continued)**

**Collections and Exhibits**

The Coronado Museum of History and Art (the “Museum”) offers visitors an opportunity to learn about the history, people and culture that make Coronado such a special place. The Museum, which opened to the public in October 2000, houses the Museum’s three exhibit galleries, a research library, state-of-the-art Archives, a Museum Store, the Tent City restaurant and the Coronado Visitor Center.

Since its inception, the museum has featured both permanent and changing exhibits with subjects as diverse as *Wings of Gold: The Centennial of Naval Aviation*, *Coronado on the Frontline* (during World War II), *Kingston Trio: A World of Music*, and *100+ Years of Coronado Yachting*. The organization’s collection has grown to over 20,000 photographs, 1,400 artifacts, and thousands of archival documents. Our library serves as a research destination for local historians and citizens who have purchased historic homes in Coronado. We continue to identify, acquire and preserve artifacts and documents that fall within the scope of the museum. Taking its stewardship seriously, CHA continues to identify ways to creatively present the history of Coronado through its collections, exhibits, and programs.

**Note 2 - Significant Accounting Policies:**

**Accounting Method**

The financial statements of CHA have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation**

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of CHA and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by CHA. The income from these assets is available for either general operations or specific programs as specified by the donor.

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risks and Uncertainties**

CHA invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

**Fair Value Measurements**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

CHA's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds and common stock are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

**Inventory**

Inventory of retail store merchandise consist primarily of books, periodicals, and other gift items. Inventory is valued at the lower of average cost (first-in, first-out) or market.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Allowance for Doubtful Accounts**

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable and contributions receivable. The allowance for doubtful accounts receivable and contributions receivable totaled \$450 at June 30, 2017.

**Capitalization and Depreciation**

CHA capitalizes all expenditures in excess of \$1,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Leasehold improvements	30 years
Office furniture and equipment	5 - 7 years
Exhibit equipment and furniture	5 years

Depreciation totaled \$53,066 for the year ended June 30, 2017.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

**Collections**

In conformity with the practice followed by many museums, art objects purchased by or donated to CHA are not capitalized in the statement of financial position. CHA's collection is made up of artifacts, photographs, records and remembrances of Coronado's past, that are held for exhibition and various other program activities. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the net assets used to purchase the items are restricted by the donor. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**Compensated Absences**

Accumulated unpaid vacation totaling \$5,815 at June 30, 2017, is accrued when incurred and included in payroll and related liabilities payable.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Revenue Recognition**

Income received in advance for events is deferred and recognized in the period in which the event occurs. Deferred revenue totaled \$3,600 at June 30, 2017.

Contributions are recognized when the donor makes a promise to give to CHA that is in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

**Donated Materials and Services**

CHA utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2017 and 2016, did not meet the requirements above; therefore no amounts were recognized in the financial statements.

**Allocation of Expenses**

CHA allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by CHA's management.

**Income Taxes**

CHA is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, except on net income derived from unrelated business activities. CHA's unrelated business activity did not generate taxable income and no tax liability has been recorded at June 30, 2017. CHA believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. CHA is not a private foundation.

CHA's Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2017, 2016, 2015 and 2014 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**Concentration of Credit Risk**

CHA maintains its cash in bank accounts and brokerage accounts which, at times, may exceed federally insured limits. CHA has not experienced any losses in such accounts. CHA believes it is not exposed to any significant credit risk on cash and cash equivalents.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, CHA considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

**Subsequent Events**

In preparing these financial statements, CHA has evaluated events and transactions for potential recognition or disclosure through April 20, 2018, the date the financial statements were available to be issued.

**Note 3 - Fair Value Measurements:**

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Mutual funds:				
Global allocation	\$ 1,016,541	\$ -	\$ -	\$ 1,016,541
Global equity	133,092	-	-	133,092
	<u>\$ 1,149,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,149,633</u>

**Note 4 - Contributions Receivable:**

Contributions receivable consist of the following at June 30, 2017:

Due in less than one year	\$ 5,433
Less: Allowance for doubtful accounts	(450)
Total Contributions Receivable, Net	<u>\$ 4,983</u>

**Note 5 - Restricted Cash and Investments:**

Restricted cash and investments consist of the following at June 30, 2017:

Mutual funds	\$ 1,149,633
Money market funds	276
Cash	9
Total Restricted Cash and Investments	<u>\$ 1,149,918</u>

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 5 - Restricted Cash and Investments: (Continued)**

The following schedule summarizes the investment return for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 20,047	\$ 1,901	\$ 21,948
Net realized and unrealized gains	93,285	18,116	111,401
Total Investment Income	\$ 113,332	\$ 20,017	\$ 133,349

**Note 6 - Property and Equipment:**

Property and equipment consist of the following at June 30, 2017:

Leasehold improvements	\$ 1,387,639
Office furniture and equipment	166,229
Exhibit equipment and furniture	238,773
Subtotal	1,792,641
Less: Accumulated depreciation	(1,123,488)
Property and Equipment, Net	\$ 669,153

**Note 7 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets represent contributions and other inflows received by CHA, which are limited in their use by the donor-imposed stipulations. Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Unappropriated endowment earnings	\$ 53,965
Lecture Hall remodeling	16,423
Exhibit	15,033
Oral History	7,775
Education	5,250
Collection	1,100
Total Temporarily Restricted Net Assets	\$ 99,546

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 8 - Endowment Net Assets:**

CHA's endowment consists of an individual fund. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors of CHA has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CHA classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CHA in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, CHA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of CHA and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of CHA
- The investment policies of CHA

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires CHA to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2017.

CHA has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
- Comply with applicable laws

CHA's endowment funds are invested in a diversified portfolio of mutual funds that are structured to satisfy its long-term rate-of-return objectives. CHA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

CHA's endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. CHA's spending policy is to spend 5%.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 8 - Endowment Net Assets: (Continued)**

Endowment composition by type of fund at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 53,965	\$ 61,308	\$ 115,273
Board designated endowment funds	1,034,645	-	-	1,034,645
Total Endowment Net Assets	<u>\$ 1,034,645</u>	<u>\$ 53,965</u>	<u>\$ 61,308</u>	<u>\$ 1,149,918</u>

Endowment composition changes in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at June 30, 2016	\$ 918,910	\$ 33,948	\$ 61,308	\$ 1,014,166
Contributions	3,500	-	-	3,500
Investment income	112,235	20,017	-	132,252
Endowment Net Assets at June 30, 2017	<u>\$ 1,034,645</u>	<u>\$ 53,965</u>	<u>\$ 61,308</u>	<u>\$ 1,149,918</u>

**Note 9 - Lease Commitment, Building Purchase Option, & Gift:**

In December 2017, CHA executed a lease amendment (the “Lease Amendment”) amending its lease of the Coronado Bank and Commerce building (the “Building”) and the real property on which the Building is situated (the “Land”) from a limited liability company (the “Landlord”) which is wholly owned by Don and Leslie Budinger. The base rent paid by CHA totaled \$293,090 for CHA’s fiscal year ended June 30, 2017. The Lease Amendment extends the term of CHA’s lease of the Building and the Land from January 1, 2020 through December 31, 2029, at the fixed annual base rent previously agreed upon by CHA and the Landlord, including increases in the base rent at the rate of 2% per year, and requires CHA to continue to pay its pro rata share of operating expenses in addition to the base rent each month. The method of calculating CHA’s base rent was not changed by the Lease Amendment, but several minor changes were made to the timing and payment of operating expenses to reflect changes previously adopted by the Landlord and CHA which had never been formalized.

The following is a schedule of future minimum payments of base rent required under the Lease Amendment during CHA’s upcoming fiscal years:

<u>Years Ended June 30</u>	<u>Base Rent</u>
2018	\$ 298,952
2019	304,931
2020	311,025
2021	317,244
2022	323,592
Thereafter	<u>2,641,566</u>
Total	<u>\$ 4,197,310</u>



**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**Note 9 - Lease Commitment, Building Purchase Option, & Gift: (Continued)**

It is important to note that an independent appraisal obtained by CHA in 2017 (the “Appraisal”) shows that the rent agreed to be paid by CHA under the Lease Amendment is significantly less than the current market rate. Therefore, the Lease Amendment also represents a gift to CHA from the Budingers to the extent of the difference between the agreed rent and the current market rate.

The rent paid by CHA is also partially offset by rental income received by CHA from subleases of portions of the building to tenants under sublease agreements. Rental income from those subleases totaled \$75,788 for the year ended June 30, 2017. CHA bills a pro rata share of operating expense to certain tenants each month.

The Lease Amendment also provides for CHA to hold an option (the “Option”) to cause the Landlord to transfer title of the Building and the Land to CHA at any time on or after January 1, 2019 by payment to the Landlord of a cash amount shown on a schedule attached as Exhibit B to the Lease Amendment. In the event the Option is exercised, the Lease Amendment requires CHA to lease back to the seller a portion of the office space in the Building which is now used by Don Budinger as described in the Lease Amendment.

It is contemplated by both the Budingers and CHA that the Budingers will cause the Landlord to complete the gifting of the Building and the Land to CHA by 2029. However, if circumstances should arise which would make it desirable for CHA to accelerate completion of the Budingers’ gift, the Lease Amendment ensures that CHA has a path to receive title to the Building and the Land through the exercise of the Option. Using the values shown in the 2017 Appraisal, the exercise of the Option will cause the amount of the gift bestowed by the Budingers on CHA to range from a gift of at least \$5,000,000 (if title is transferred by the exercise of the Option in 2019) to at least \$7,450,000 (if title is transferred by exercise of the Option in 2029). However, if the gift is accelerated by CHA’s exercise of the Option, the exact amount of the gift will likely be larger as it will be the difference between the value of the Building and the Land at that time of exercise of the Option (which will likely be higher than shown in the 2017 Appraisal) and the payment required to be made by CHA to the Landlord as shown on the following schedule which is attached as Exhibit B to the Lease Amendment:

Year of Exercise of the Option	Payment by CHA
2019	\$ 2,500,000
2020	2,250,000
2021	2,000,000
2022	1,750,000
2023	1,500,000
2024	1,250,000
2025	1,000,000
2026	750,000
2027	500,000
2028	250,000
2029	50,000

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Program Services						Supporting Services				
	Museum and Exhibits	Museum Store	Education	Visitor Center	Art Walk	Events	Total	Management and General	Fundraising	Total	Total
<b>Salaries and Related Expenses:</b>											
Salaries and wages	\$ 123,655	\$ 51,684	\$ 95,238	\$ 15,921	\$ -	\$ -	\$ 286,498	\$ 37,730	\$ 27,678	\$ 65,408	\$ 351,906
Payroll taxes and related costs	10,435	4,362	8,037	1,344	-	-	24,178	3,185	2,336	5,521	29,699
Employee benefits	9,300	3,887	7,163	1,197	-	-	21,547	2,839	2,082	4,921	26,468
Total Salaries and Related Expenses	<u>143,390</u>	<u>59,933</u>	<u>110,438</u>	<u>18,462</u>	<u>-</u>	<u>-</u>	<u>332,223</u>	<u>43,754</u>	<u>32,096</u>	<u>75,850</u>	<u>408,073</u>
<b>Nonsalary Related Expenses:</b>											
Administrative expenses	146	4,599	19,047	(292)	1,653	2,770	27,923	19,781	1,435	21,216	49,139
Advertising and marketing	500	-	475	-	4,103	1,375	6,453	2,139	862	3,001	9,454
Bad debt expense (recovery)	-	410	-	-	-	-	410	(9,708)	903	(8,805)	(8,395)
Buildings and grounds	80,700	7,368	92,612	18,540	-	-	199,220	76,360	5,054	81,414	280,634
Collection	3,215	-	-	-	-	-	3,215	-	-	-	3,215
Cost of goods sold	-	76,813	-	-	-	-	76,813	-	-	-	76,813
Dues and subscriptions	-	1,143	550	28	-	-	1,721	629	1,155	1,784	3,505
Events	256	-	8,572	-	11,049	457	20,334	-	7,509	7,509	27,843
Exhibitions	9,124	3,582	-	-	-	-	12,706	-	-	-	12,706
Gifts, plaques and awards	-	46	484	-	80	150	760	406	615	1,021	1,781
Information technology	785	1,021	1,800	-	-	-	3,606	6,778	2,677	9,455	13,061
Insurance	145	-	-	-	-	-	145	5,574	-	5,574	5,719
Meetings and conferences	-	180	982	21	-	-	1,183	840	217	1,057	2,240
Outside services	2,003	-	4,427	3,549	3,133	6,071	19,183	10,084	4,726	14,810	33,993
Professional services	750	351	1,035	-	-	-	2,136	30,546	472	31,018	33,154
Supplies	14	1,470	2,685	-	389	215	4,773	9,513	2,483	11,996	16,769
Travel	156	-	202	-	-	-	358	-	-	-	358
Total Nonsalary Related Expenses	<u>97,794</u>	<u>96,983</u>	<u>132,871</u>	<u>21,846</u>	<u>20,407</u>	<u>11,038</u>	<u>380,939</u>	<u>152,942</u>	<u>28,108</u>	<u>181,050</u>	<u>561,989</u>
Add: Depreciation	<u>13,760</u>	<u>2,058</u>	<u>18,061</u>	<u>3,161</u>	<u>-</u>	<u>-</u>	<u>37,040</u>	<u>15,164</u>	<u>862</u>	<u>16,026</u>	<u>53,066</u>
<b>TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES</b>	<u>\$ 254,944</u>	<u>\$ 158,974</u>	<u>\$ 261,370</u>	<u>\$ 43,469</u>	<u>\$ 20,407</u>	<u>\$ 11,038</u>	<u>\$ 750,202</u>	<u>\$ 211,860</u>	<u>\$ 61,066</u>	<u>\$ 272,926</u>	<u>\$ 1,023,128</u>