

**CORONADO HISTORICAL ASSOCIATION**  

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**AND CORONADO MUSEUM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**



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

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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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

### Report on the Financial Statements

We have audited the accompanying financial statements of Coronado Historical Association, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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.

To the Board of Directors  
Coronado Historical Association

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*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coronado Historical Association as of June 30, 2019 and 2018, 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.

Leaf & Cole LLP

San Diego, California  
December 4, 2019

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2019 AND 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
<b><u>Current Assets:</u></b> (Notes 2 and 5)		
Cash and cash equivalents:		
Unrestricted	\$ 1,230	\$ 51,365
Restricted	-	25,591
Accounts receivable	-	1,445
Contributions receivable, net	6,476	-
Inventory	17,621	25,255
Prepaid expenses	32,493	12,422
Total Current Assets	57,820	116,078
<b><u>Noncurrent Assets:</u></b> (Notes 2, 4, 6 and 7)		
Deposits	18,000	18,000
Property and equipment, net	587,912	636,803
Restricted cash and investments:		
Board designated endowment fund	750,431	935,480
Donor designated endowment fund	61,308	61,308
Unappropriated donor designated endowment earnings	3,395	66,321
Capital campaign	107,819	86,580
Total Noncurrent Assets	1,528,865	1,804,492
<b>TOTAL ASSETS</b>	<b>\$ 1,586,685</b>	<b>\$ 1,920,570</b>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b> (Note 2)		
Accounts payable and accrued expenses	\$ 12,519	\$ 54,671
Payroll and related liabilities payable	12,240	10,666
Total Current Liabilities	24,759	65,337
Total Liabilities	24,759	65,337
<b><u>Commitment</u></b> (Note 10)		
<b><u>Net Assets:</u></b> (Notes 8 and 9)		
Without Donor Restrictions:		
Undesignated	620,102	673,603
Board designated endowment fund	750,431	935,480
Total Without Donor Restrictions	1,370,533	1,609,083
With Donor Restrictions:		
Purpose restrictions	130,085	184,842
Perpetual in nature	61,308	61,308
Total With Donor Restrictions	191,393	246,150
Total Net Assets	1,561,926	1,855,233
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,586,685</b>	<b>\$ 1,920,570</b>

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

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b><u>Support and Revenue:</u></b>						
Grants	\$ 386,700	\$ -	\$ 386,700	\$ 381,350	\$ 3,500	\$ 384,850
Contributions	141,901	17,947	159,848	90,427	93,752	184,179
Membership dues	125,861	-	125,861	101,491	-	101,491
Event income	100,399	-	100,399	135,959	-	135,959
Museum store sales	60,783	-	60,783	107,856	-	107,856
Education	54,243	-	54,243	118,911	-	118,911
Investment income (loss)	33,919	(926)	32,993	72,369	15,131	87,500
Rental income, net of expenses of \$59,870 and \$57,790	1,250	-	1,250	4,950	-	4,950
Research library fees	889	-	889	-	-	-
Artist fees	-	-	-	31,671	-	31,671
Loss on disposal of property and equipment	(2,725)	-	(2,725)	-	-	-
Net assets released from restrictions	71,778	(71,778)	-	27,087	(27,087)	-
Total Support and Revenue	<u>974,998</u>	<u>(54,757)</u>	<u>920,241</u>	<u>1,072,071</u>	<u>85,296</u>	<u>1,157,367</u>
<b><u>Expenses:</u></b>						
<b>Program Services:</b>						
Education and outreach	411,994	-	411,994	435,329	-	435,329
Museum collections and exhibits	383,687	-	383,687	377,884	-	377,884
Museum store	83,485	-	83,485	146,348	-	146,348
Total Program Services	<u>879,166</u>	<u>-</u>	<u>879,166</u>	<u>959,561</u>	<u>-</u>	<u>959,561</u>
<b>Supporting Services:</b>						
Management and general	117,216	-	117,216	53,836	-	53,836
Fundraising	217,166	-	217,166	333,262	-	333,262
Total Supporting Services	<u>334,382</u>	<u>-</u>	<u>334,382</u>	<u>387,098</u>	<u>-</u>	<u>387,098</u>
Total Expenses	<u>1,213,548</u>	<u>-</u>	<u>1,213,548</u>	<u>1,346,659</u>	<u>-</u>	<u>1,346,659</u>
Change in Net Assets	(238,550)	(54,757)	(293,307)	(274,588)	85,296	(189,292)
Net Assets at Beginning of Year	<u>1,609,083</u>	<u>246,150</u>	<u>1,855,233</u>	<u>1,883,671</u>	<u>160,854</u>	<u>2,044,525</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,370,533</u>	<u>\$ 191,393</u>	<u>\$ 1,561,926</u>	<u>\$ 1,609,083</u>	<u>\$ 246,150</u>	<u>\$ 1,855,233</u>

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

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services				Supporting Services			
	Museum		Education and		Management	Fundraising	Total	Total
	Collections and Exhibits	Museum Store	Outreach	Total				
<b>Salaries and Related Expenses:</b>								
Salaries and wages	\$ 82,855	\$ 26,596	\$ 122,608	\$ 232,059	\$ 29,837	\$ 64,260	\$ 94,097	\$ 326,156
Payroll taxes and related costs	6,992	2,244	10,346	19,582	2,518	5,422	7,940	27,522
Employee benefits	3,245	1,041	4,802	9,088	1,168	2,517	3,685	12,773
Total Salaries and Related Expenses	<u>93,092</u>	<u>29,881</u>	<u>137,756</u>	<u>260,729</u>	<u>33,523</u>	<u>72,199</u>	<u>105,722</u>	<u>366,451</u>
<b>Nonsalary Related Expenses:</b>								
Administrative expenses	789	3,257	6,178	10,224	20,466	14,636	35,102	45,326
Advertising and marketing	525	-	7,743	8,268	-	1,970	1,970	10,238
Buildings and grounds	540	-	-	540	413,347	-	413,347	413,887
Collection	4,675	-	-	4,675	-	-	-	4,675
Cost of goods sold	-	30,506	-	30,506	-	4,670	4,670	35,176
Dues and subscriptions	770	-	2,325	3,095	-	-	-	3,095
Events	10	-	20,400	20,410	-	60,289	60,289	80,699
Exhibitions	12,107	-	5,689	17,796	-	-	-	17,796
Gifts, plaques and awards	88	-	899	987	110	1,608	1,718	2,705
Information technology	4,304	1,598	5,676	11,578	11,488	7,081	18,569	30,147
Insurance	2,443	-	1,092	3,535	14,690	-	14,690	18,225
Meetings and conferences	-	45	385	430	46	90	136	566
Miscellaneous	1,675	-	-	1,675	-	-	-	1,675
Outside services	1,002	187	8,566	9,755	18,663	10,000	28,663	38,418
Professional services	2,320	-	568	2,888	52,720	3,975	56,695	59,583
Supplies	672	839	14,078	15,589	3,022	579	3,601	19,190
Travel	1,085	-	291	1,376	1	-	1	1,377
Total Nonsalary Related Expenses	<u>33,005</u>	<u>36,432</u>	<u>73,890</u>	<u>143,327</u>	<u>534,553</u>	<u>104,898</u>	<u>639,451</u>	<u>782,778</u>
Shared cost allocation	228,646	15,243	177,836	421,725	(457,292)	35,567	(421,725)	-
Depreciation	28,944	1,929	22,512	53,385	6,432	4,502	10,934	64,319
<b>Total Expenses</b>	<u>\$ 383,687</u>	<u>\$ 83,485</u>	<u>\$ 411,994</u>	<u>\$ 879,166</u>	<u>\$ 117,216</u>	<u>\$ 217,166</u>	<u>\$ 334,382</u>	<u>\$ 1,213,548</u>

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

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services				Supporting Services				
	Museum		Education and		Management		Fundraising		Total
	Collections and Exhibits	Museum Store	Outreach	Total	and General	Total	Total		
<b>Salaries and Related Expenses:</b>									
Salaries and wages	\$ 91,368	\$ 26,550	\$ 136,616	\$ 254,534	\$ 36,553	\$ 44,748	\$ 81,301	\$ 335,835	
Payroll taxes and related costs	8,374	2,434	12,521	23,329	3,350	4,101	7,451	30,780	
Employee benefits	5,858	1,702	8,759	16,319	2,343	2,869	5,212	21,531	
Total Salaries and Related Expenses	<u>105,600</u>	<u>30,686</u>	<u>157,896</u>	<u>294,182</u>	<u>42,246</u>	<u>51,718</u>	<u>93,964</u>	<u>388,146</u>	
<b>Nonsalary Related Expenses:</b>									
Administrative expenses	2,049	6,165	7,868	16,082	18,057	8,464	26,521	42,603	
Advertising and marketing	-	1,253	9,849	11,102	-	6,361	6,361	17,463	
Bad debt expense	-	-	-	-	629	-	629	629	
Buildings and grounds	683	2,759	-	3,442	299,483	-	299,483	302,925	
Collection	1,192	-	-	1,192	-	-	-	1,192	
Cost of goods sold	-	66,228	-	66,228	-	-	-	66,228	
Dues and subscriptions	1,548	-	118	1,666	183	395	578	2,244	
Events	368	21	11,980	12,369	170	65,807	65,977	78,346	
Exhibitions	14,593	-	-	14,593	-	-	-	14,593	
Gifts, plaques and awards	50	-	179	229	181	1,249	1,430	1,659	
Information technology	1,184	180	646	2,010	6,398	1,584	7,982	9,992	
Insurance	607	-	-	607	7,841	-	7,841	8,448	
In-kind	-	581	-	581	13,919	415	14,334	14,915	
Meetings and conferences	1,616	-	141	1,757	281	450	731	2,488	
Miscellaneous	-	1,491	-	1,491	1,084	-	1,084	2,575	
Outside services	357	100	2,768	3,225	36,094	147,136	183,230	186,455	
Professional services	4,093	-	688	4,781	117,110	5,322	122,432	127,213	
Supplies	3,875	2,971	2,886	9,732	7,357	2,605	9,962	19,694	
Travel	528	-	-	528	-	750	750	1,278	
Total Nonsalary Related Expenses	<u>32,743</u>	<u>81,749</u>	<u>37,123</u>	<u>151,615</u>	<u>508,787</u>	<u>240,538</u>	<u>749,325</u>	<u>900,940</u>	
Shared cost allocation	213,492	27,146	222,637	463,275	(501,265)	37,990	(463,275)	-	
Depreciation	<u>26,049</u>	<u>6,767</u>	<u>17,673</u>	<u>50,489</u>	<u>4,068</u>	<u>3,016</u>	<u>7,084</u>	<u>57,573</u>	
<b>Total Expenses</b>	<u>\$ 377,884</u>	<u>\$ 146,348</u>	<u>\$ 435,329</u>	<u>\$ 959,561</u>	<u>\$ 53,836</u>	<u>\$ 333,262</u>	<u>\$ 387,098</u>	<u>\$ 1,346,659</u>	

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



**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (293,307)	\$ (189,292)
<b>Adjustments to reconcile change in net assets to net cash used in operating activities:</b>		
Depreciation	64,319	57,573
Net realized and unrealized gains on investments	(7,881)	(79,657)
Loss on disposal of property and equipment	2,725	-
<b>(Increase) Decrease in:</b>		
Accounts receivable	1,445	7,059
Contributions receivable, net	(6,476)	4,983
Inventory	7,634	17
Prepaid expenses	(20,071)	(9,889)
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	(42,152)	39,071
Payroll and related liabilities payable	1,574	(177)
Deferred revenue	-	(3,600)
Net Cash Used in Operating Activities	<u>(292,190)</u>	<u>(173,912)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment (purchases) and sales, net	321,331	103,135
Purchase of property and equipment	<u>(18,153)</u>	<u>(25,223)</u>
Net Cash Provided by Investing Activities	<u>303,178</u>	<u>77,912</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,988	(96,000)
Cash and Cash Equivalents at Beginning of Year	<u>100,490</u>	<u>196,490</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 111,478</u></b>	<b><u>\$ 100,490</u></b>

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

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 1 - Organization:**

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, we bring Coronado’s history to life through fascinating permanent exhibits and changing displays.

**Mission**

CHA’s mission is to advance learning and stewardship in all by serving as Coronado’s primary center for community history.

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

**Museum Collections and Exhibits**

Coronado Historical Association offers the public an opportunity to learn about the history, people, and culture that make Coronado special, and for that purpose, it develops educational exhibits and programs. CHA’s building houses three exhibition galleries, a lecture hall/classroom, a public research library, museum collections storage vault, Museum Store, Tent City Restaurant, and a Museum/Coronado Information Desk.

CHA has an extensive collection of local history objects and archives, including paintings, photographs, military items, textiles, and early Coronado documents. The collection is maintained under the care of the Curator of Collections and Executive Director/Curator and is held for research, education and public exhibition in furtherance of public service. As a matter of policy, proceeds from the sale of collection items are used for direct care of the collection or to acquire other items for the collection. CHA does not include either the cost or the value of its collection in the statement of financial position, nor does it recognize gifts of collection items as revenues in the statement of activities.

**Education and Outreach**

In support of its mission, CHA has a special focus on educational programs and outreach. In addition to a year-round schedule of public lectures and other thought-provoking programs for adults and youth, such as a Preservation Symposium every spring (co-presented with other leading Coronado organizations), CHA presents core curriculum aligned in-classroom programming in partnership with the Coronado Unified School District. CHA also promotes appreciation of historic landscapes through its the annual Coronado Historic Home Tour. Additionally, CHA awards the Going the Extra Mile (GEM) award to one property owner whose thoughtful efforts to preserve and restore, rather than replace existing homes, turns potential teardowns into local architectural GEMS. CHA’s volunteer Docents lead historic walking tours around Coronado. The tours are offered four days a week. The tour explores downtown Coronado, Ocean Blvd, Star Park, the Hotel del Coronado, and other points of interest. CHA’s commitment to education extends to training future professionals through robust high school, college, and graduate internship programs. CHA partners with Coronado High School and local universities to create opportunities for students to get hands-on experience conducting oral histories, developing exhibits, and cataloging collections.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**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**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported 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 designated, from net assets without donor restrictions, a board-designated endowment.
- 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 a 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.

**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.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**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 statements 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 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 net realizable value.

**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 support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, CHA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CHA reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**Capitalization and Depreciation (Continued)**

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 \$64,319 and \$57,573 for the years ended June 30, 2019 and 2018, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**Collections**

In conformity with the practice followed by many museums, art and historic 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 net assets without donor restrictions in the year in which the items are acquired, or in net assets with donor restrictions 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 \$9,209 and \$7,153 at June 30, 2019 and 2018, respectively, is accrued when incurred and included in payroll and related liabilities payable.

**Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to CHA that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**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 totaled \$-0- and \$12,079 for the years ended June 30, 2019 and 2018, respectively.

CHA received donated supplies and materials. The donated supplies and materials have been recorded at fair value and totaled \$-0- and \$2,836 for the year ended June 30, 2019 and 2018, respectively.

CHA leased property at below market rates. The in-kind rent totaled \$109,390 and \$-0- for the years ended June 30, 2019 and 2018, respectively, and has been recorded as contribution revenue and buildings and grounds expense. (Note 10)

**Functional Allocation of Expenses**

The statements of functional expenses present expenses by function and natural classification. 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, 2019 and 2018. 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, 2019, 2018, 2017, 2016 and 2015 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.

**Cash and Cash Equivalents**

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

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

**Accounting Pronouncements Adopted**

In August 2016, the FASB issued ASU 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes that affected CHA’s financial statements include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. CHA has adopted this ASU as of and for the year ended June 30, 2019.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2018. There was no effect of adopting the new accounting principles on contributions in 2019.

**Subsequent Events**

In preparing these financial statements, CHA has evaluated subsequent events for potential recognition or disclosure through December 4, 2019, the date the financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

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**Note 3 - Liquidity and Availability**

CHA regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. CHA considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, CHA considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 1,230
Contributions receivable	6,476
Appropriation of board-designated endowment and endowment earnings	40,000
Financial assets available to meet general expenditures within one year	\$ 47,706

In addition to financial assets available to meet general expenditures over the next 12 months, CHA operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

CHA's governing board has designated a portion of its unrestricted resources for endowment purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board of Directors. Appropriations of board-designated endowment fund earnings are made in accordance with the spending policy as described in Note 9.

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Appropriations of endowment fund earnings are made in accordance with the spending policy as described in Note 9. The portion of the donor-restricted endowment funds required to be held in perpetuity are not available for general expenditure.



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**Note 4 - Fair Value Measurements:**

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

	2019			
	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, 2019
Mutual funds	\$ 812,705	\$ -	\$ -	\$ 812,705
	2018			
	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, 2018
Mutual funds	\$ 1,126,155	\$ -	\$ -	\$ 1,126,155

**Note 5 - Contributions Receivable:**

Contributions receivable totaling \$6,476 and \$0- at June 30, 2019 and 2018, respectively, are due in less than one year.

**Note 6 - Property and Equipment:**

Property and equipment consist of the following at June 30:

	2019	2018
Leasehold improvements	\$ 1,380,202	\$ 1,387,639
Office furniture and equipment	74,357	176,783
Exhibit equipment and furniture	28,057	236,862
Website	5,500	-
Subtotal	1,488,116	1,801,284
Less: Accumulated depreciation	(900,204)	(1,164,481)
Property and Equipment, Net	\$ 587,912	\$ 636,803

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**Note 7 - Restricted Cash and Investments:**

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

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 812,705	\$ 1,126,155
Cash	2,429	20,954
Money market funds	107,819	2,580
Total Restricted Cash and Investments	\$ 922,953	\$ 1,149,689

The following schedule summarizes the investment income (loss) for the years ended June 30:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 23,066	\$ 2,046	\$ 25,112
Net realized and unrealized gains (losses)	10,854	(2,973)	7,881
Total Investment Income (Loss)	\$ 33,920	\$ (927)	\$ 32,993
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 5,905	\$ 1,938	\$ 7,843
Net realized and unrealized gains	66,464	13,193	79,657
Total Investment Income	\$ 72,369	\$ 15,131	\$ 87,500

**Note 8 - Net Assets With Donor Restrictions:**

Net assets with donor restrictions represent contributions received or receivable by CHA, which are limited in their use by the donor-imposed restrictions. Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
<b>Subject to Expenditure for Specified Purpose:</b>		
Capital campaign	\$ 104,290	\$ 86,580
Lecture Hall remodeling	11,244	11,244
Oral History	7,141	7,175
Education	4,015	5,250
Unappropriated donor-designated endowment earnings	3,395	66,321
Research library and collection	-	8,272
Total Subject to Expenditure for Specified Purpose	130,085	184,842
<b>Perpetual in Nature:</b>		
Endowment (Note 9)	61,308	61,308
Total Net Assets with Donor Restrictions	\$ 191,393	\$ 246,150

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**Note 8 - Net Assets With Donor Restrictions: (Continued)**

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
<b>Purpose Restrictions Fulfilled:</b>		
Appropriated endowment earnings	\$ 62,000	\$ 2,775
Research library	7,409	-
Education	1,235	-
Collection	1,100	-
Oral history	34	600
Exhibits	-	18,533
Lecture Hall remodeling	-	5,179
Total Net Assets Release From Restrictions	\$ 71,778	\$ 27,087

**Note 9 - 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.

CHA has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (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 donor restricted net assets of a perpetual nature as (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 donor-restricted net assets of a perpetual nature is classified as donor-restricted net assets with time restrictions 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

CHA considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. CHA has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. CHA has no underwater endowment funds at June 30, 2019 and 2018.

**CORONADO HISTORICAL ASSOCIATION, INCORPORATED**  
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**Note 9 - Endowment Net Assets: (Continued)**

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%.

Endowment composition by type of fund at June 30:

	2019			
	Without Donor Restrictions	With Donor Restrictions - Time	With Donor Restrictions - Perpetual	Total
Donor-designated endowment fund	\$ -	\$ 3,395	\$ 61,308	\$ 64,703
Board-designated endowment fund	750,431	-	-	750,431
Total Endowment Net Assets	\$ 750,431	\$ 3,395	\$ 61,308	\$ 815,134
	2018			
	Without Donor Restrictions	With Donor Restrictions - Time	With Donor Restrictions - Perpetual	Total
Donor-designated endowment fund	\$ -	\$ 66,321	\$ 61,308	\$ 127,629
Board-designated endowment fund	935,480	-	-	935,480
Total Endowment Net Assets	\$ 935,480	\$ 66,321	\$ 61,308	\$ 1,063,109

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**Note 9 - Endowment Net Assets: (Continued)**

Endowment composition changes in endowment net assets for the years ended June 30:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions - Time</u>	<u>With Donor Restrictions - Perpetual</u>	<u>Total</u>
Endowment Net Assets at June 30, 2017	\$ 1,034,645	\$ 53,965	\$ 61,308	\$ 1,149,918
Investment income	71,955	15,131	-	87,086
Net assets released	<u>(171,120)</u>	<u>(2,775)</u>	<u>-</u>	<u>(173,895)</u>
Endowment Net Assets at June 30, 2018	935,480	66,321	61,308	1,063,109
Contributions	2,387	-	-	2,387
Investment income (loss)	33,859	(926)	-	32,933
Net assets released	<u>(221,295)</u>	<u>(62,000)</u>	<u>-</u>	<u>(283,395)</u>
Endowment Net Assets at June 30, 2019	<u>\$ 750,431</u>	<u>\$ 3,395</u>	<u>\$ 61,308</u>	<u>\$ 815,134</u>

**Note 10 - 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 \$304,928 and \$298,952 at June 30, 2019 and 2018, respectively.

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>
2020	\$ 311,025
2021	317,244
2022	323,592
2023	333,066
2024	336,672
Thereafter	<u>1,974,828</u>
Total	<u>\$ 3,593,427</u>

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**Note 10 - 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 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 in-kind rent totaled \$109,390 and \$-0-for the years ended June 30, 2019 and 2018, respectively.

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 \$59,870 and \$57,791 for the years ended June 30, 2019 and 2018, respectively, and has been recorded as a reduction in rent expense. 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
2020	\$ 2,500,000
2021	2,250,000
2022	2,000,000
2023	1,750,000
2024	1,500,000
2025	1,250,000
2026	1,000,000
2027	750,000
2028	500,000
2029	250,000
2030	50,000