

CORONADO HISTORICAL ASSOCIATION

AND CORONADO MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



Leaf & Cole, LLP
Certified Public Accountants

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 16
Supplementary Information:	
Schedule of Functional Expenses - 2018	17
Schedule of Functional Expenses - 2017	18



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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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.

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, 2018 and 2017, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of functional expenses for the years ended June 30, 2018 and 2017 are presented for purposes of additional analysis and are 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
January 31, 2019

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
<u>Current Assets:</u> (Notes 2 and 4)		
Cash and cash equivalents:		
Unrestricted	\$ 51,365	\$ 150,624
Restricted	25,591	45,581
Accounts receivable	1,445	8,504
Contributions receivable, net	-	4,983
Inventory	25,255	25,272
Prepaid expenses	12,422	2,533
Total Current Assets	<u>116,078</u>	<u>237,497</u>
<u>Noncurrent Assets:</u> (Notes 2, 3, 5, 6, 7 and 8)		
Deposits	18,000	18,000
Property and equipment, net	636,803	669,153
Restricted cash and investments:		
Board designated endowment fund	935,480	1,034,645
Donor designated endowment fund	61,308	61,308
Unappropriated donor designated endowment earnings	66,321	53,965
Capital campaign	86,580	-
Total Noncurrent Assets	<u>1,804,492</u>	<u>1,837,071</u>
TOTAL ASSETS	<u><u>\$ 1,920,570</u></u>	<u><u>\$ 2,074,568</u></u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u> (Note 2)		
Accounts payable and accrued expenses	\$ 54,671	\$ 15,600
Payroll and related liabilities payable	10,666	10,843
Deferred revenue	-	3,600
Total Current Liabilities	<u>65,337</u>	<u>30,043</u>
Total Liabilities	<u>65,337</u>	<u>30,043</u>
<u>Commitment</u> (Note 9)		
<u>Net Assets:</u> (Notes 7 and 8)		
Unrestricted:		
Undesignated	673,603	849,026
Board designated endowment fund	935,480	1,034,645
Total Unrestricted	<u>1,609,083</u>	<u>1,883,671</u>
Temporarily restricted	184,842	99,546
Permanently restricted	61,308	61,308
Total Net Assets	<u>1,855,233</u>	<u>2,044,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,920,570</u></u>	<u><u>\$ 2,074,568</u></u>

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted Operations	Temporarily Restricted	Permanently Restricted	Total	Unrestricted Operations	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue:</u>								
Contracts for services	\$ 381,350	\$ 3,500	\$ -	\$ 384,850	\$ 381,350	\$ 3,500	\$ -	\$ 384,850
Contributions	90,427	93,752	-	184,179	55,766	62,658	-	118,424
Event income	135,959	-	-	135,959	156,111	-	-	156,111
Education	118,911	-	-	118,911	78,993	-	-	78,993
Museum store sales	107,856	-	-	107,856	135,733	-	-	135,733
Membership dues	101,491	-	-	101,491	96,890	-	-	96,890
Investment income	72,369	15,131	-	87,500	113,332	20,017	-	133,349
Rental income	62,740	-	-	62,740	75,788	-	-	75,788
Artist fees	31,671	-	-	31,671	56,462	-	-	56,462
Net assets released from restrictions	27,087	(27,087)	-	-	43,227	(43,227)	-	-
Total Support and Revenue	<u>1,129,861</u>	<u>85,296</u>	<u>-</u>	<u>1,215,157</u>	<u>1,193,652</u>	<u>42,948</u>	<u>-</u>	<u>1,236,600</u>
<u>Program and Supporting Services:</u>								
Program Services:								
Education and outreach	423,349	-	-	423,349	336,284	-	-	336,284
Museum collections and exhibits	377,516	-	-	377,516	254,944	-	-	254,944
Museum store	146,327	-	-	146,327	158,974	-	-	158,974
Total Program Services	<u>947,192</u>	<u>-</u>	<u>-</u>	<u>947,192</u>	<u>750,202</u>	<u>-</u>	<u>-</u>	<u>750,202</u>
Supporting Services:								
Management and general	48,716	-	-	48,716	211,860	-	-	211,860
Fundraising	272,805	-	-	272,805	61,066	-	-	61,066
Total Supporting Services	<u>321,521</u>	<u>-</u>	<u>-</u>	<u>321,521</u>	<u>272,926</u>	<u>-</u>	<u>-</u>	<u>272,926</u>
Total Program and Supporting Services	<u>1,268,713</u>	<u>-</u>	<u>-</u>	<u>1,268,713</u>	<u>1,023,128</u>	<u>-</u>	<u>-</u>	<u>1,023,128</u>
<u>Other Expenses:</u>								
Rental expense	62,740	-	-	62,740	75,788	-	-	75,788
Event expenses	72,996	-	-	72,996	50,134	-	-	50,134
Total Other Expenses	<u>135,736</u>	<u>-</u>	<u>-</u>	<u>135,736</u>	<u>125,922</u>	<u>-</u>	<u>-</u>	<u>125,922</u>
Total Expenses	<u>1,404,449</u>	<u>-</u>	<u>-</u>	<u>1,404,449</u>	<u>1,149,050</u>	<u>-</u>	<u>-</u>	<u>1,149,050</u>
Change in Net Assets	(274,588)	85,296	-	(189,292)	44,602	42,948	-	87,550
Net Assets at Beginning of Year	<u>1,883,671</u>	<u>99,546</u>	<u>61,308</u>	<u>2,044,525</u>	<u>1,839,069</u>	<u>56,598</u>	<u>61,308</u>	<u>1,956,975</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,609,083</u>	<u>\$ 184,842</u>	<u>\$ 61,308</u>	<u>\$ 1,855,233</u>	<u>\$ 1,883,671</u>	<u>\$ 99,546</u>	<u>\$ 61,308</u>	<u>\$ 2,044,525</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (189,292)	\$ 87,550
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	57,573	53,066
Net realized and unrealized gains on investments	(79,657)	(111,401)
(Increase) Decrease in:		
Accounts receivable	7,059	(817)
Contributions receivable, net	4,983	(372)
Inventory	17	7,369
Prepaid expenses	(9,889)	(100)
Increase (Decrease) in:		
Accounts payable and accrued expenses	39,071	5,798
Payroll and related liabilities payable	(177)	(1,392)
Deferred revenue	(3,600)	3,600
Net Cash (Used in) Provided by Operating Activities	<u>(173,912)</u>	<u>43,301</u>
<u>Cash Flows From Investing Activities:</u>		
Investment purchases and sales, net	103,135	(24,381)
Purchase of property and equipment	(25,223)	(41,372)
Net Cash Provided by (Used in) Investing Activities	<u>77,912</u>	<u>(65,753)</u>
Net Decrease in Cash and Cash Equivalents	(96,000)	(22,452)
Cash and Cash Equivalents at Beginning of Year	<u>196,490</u>	<u>218,942</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 100,490</u>	<u>\$ 196,490</u>

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Mission

CHA’s 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:

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 the Coronado Information Center.

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 Registrar and Museum Director 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 who’s thoughtful efforts to preserve and restore, rather than replace existing homes, turns potential tear-downs into local architectural GEMS.

Located in the lobby of CHA’s building is the City of Coronado Information Center, a partnership between CHA and the City of Coronado. 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, 2018 AND 2017

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.

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, 2018 AND 2017

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 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 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.

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 \$-0- and \$450 at June 30, 2018 and 2017, respectively.

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, CHA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CHA reclassifies temporarily restricted net assets to unrestricted net assets at that time.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 \$57,573 and \$53,066 for the years ended June 30, 2018 and 2017, respectively.

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 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 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 \$7,153 and \$5,815 at June 30, 2018 and 2017, respectively, is accrued when incurred and included in payroll and related liabilities payable.

Revenue Recognition

Income received in advance for events is deferred and recognized in the period in which the event occurs. Deferred revenue totaled \$-0- and \$3,600 at June 30, 2018 and 2017, respectively.

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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 \$12,079 and \$-0- for the years ended June 30, 2018 and 2017, respectively.

CHA received donated supplies and materials. The donated supplies and materials have been recorded at fair value and totaled \$2,836 and \$-0- for the year ended June 30, 2018 and 2017, respectively.

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, 2018 and 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, 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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2 - Significant Accounting Policies: (Continued)

Subsequent Events

In preparing these financial statements, CHA has evaluated subsequent events for potential recognition or disclosure through January 31, 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.

Note 3 - Fair Value Measurements:

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

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:				
Global allocation	\$ 999,403	\$ -	\$ -	\$ 999,403
Global equity	126,752	-	-	126,752
	<u>\$ 1,126,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,126,155</u>

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:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ -	\$ 5,433
Less: Allowance for doubtful accounts	-	(450)
Total Contributions Receivable, Net	<u>\$ -</u>	<u>\$ 4,983</u>

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5 - Restricted Cash and Investments:

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

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 1,126,155	\$ 1,149,633
Cash	20,954	9
Money market funds	2,580	276
Total Restricted Cash and Investments	<u>\$ 1,149,689</u>	<u>\$ 1,149,918</u>

The following schedule summarizes the investment return for the years ended June 30:

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 5,905	\$ 1,938	\$ 7,843
Net realized and unrealized gains	66,464	13,193	79,657
Total Investment Income	<u>\$ 72,369</u>	<u>\$ 15,131</u>	<u>\$ 87,500</u>

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 20,047	\$ 1,901	\$ 21,948
Net realized and unrealized gains	93,285	18,116	111,401
Total Investment Income	<u>\$ 113,332</u>	<u>\$ 20,017</u>	<u>\$ 133,349</u>

Note 6 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 1,387,639	\$ 1,387,639
Office furniture and equipment	176,783	166,229
Exhibit equipment and furniture	236,862	238,773
Subtotal	<u>1,801,284</u>	<u>1,792,641</u>
Less: Accumulated depreciation	<u>(1,164,481)</u>	<u>(1,123,488)</u>
Property and Equipment, Net	<u>\$ 636,803</u>	<u>\$ 669,153</u>

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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:

	<u>2018</u>	<u>2017</u>
Capital campaign	\$ 86,580	\$ -
Unappropriated donor designated endowment earnings	66,321	53,965
Lecture Hall remodeling	11,244	16,423
Oral History	7,175	7,775
Research library	7,172	-
Education	5,250	5,250
Collection	1,100	1,100
Exhibit	-	15,033
Total Temporarily Restricted Net Assets	<u>\$ 184,842</u>	<u>\$ 99,546</u>

Net assets totaling \$27,087 and \$43,227 were released from donor restrictions during the years ended June 30, 2018 and 2017, respectively, by incurring expenses satisfying the purpose or time restrictions specified by donors.

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 8 - Endowment Net Assets: (Continued)

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, 2018 or 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%.

Endowment composition by type of fund at June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment fund	\$ -	\$ 66,321	\$ 61,308	\$ 127,629
Board designated endowment fund	935,480	-	-	935,480
Total Endowment Net Assets	<u>\$ 935,480</u>	<u>\$ 66,321</u>	<u>\$ 61,308</u>	<u>\$ 1,063,109</u>

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment fund	\$ -	\$ 53,965	\$ 61,308	\$ 115,273
Board designated endowment fund	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>

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 8 - Endowment Net Assets: (Continued)

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

	<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	1,034,645	53,965	61,308	1,149,918
Investment income	71,955	15,131	-	87,086
Net assets released	(171,120)	(2,775)	-	(173,895)
Endowment Net Assets at June 30, 2018	<u>\$ 935,480</u>	<u>\$ 66,321</u>	<u>\$ 61,308</u>	<u>\$ 1,063,109</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 \$298,952 and \$293,090 at June 30, 2018 and 2017, 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>
2019	\$ 304,931
2020	311,025
2021	317,244
2022	323,592
Thereafter	2,641,566
Total	<u>\$ 3,898,358</u>

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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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 \$62,740 and \$75,788 for the years ended June 30, 2018 and 2017, respectively. 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:

<u>Year of Exercise of the Option</u>	<u>Payment by CHA</u>
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, 2018

	Program Services				Supporting Services			
	Museum Collections and Exhibits	Museum Store	Education and Outreach	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses:								
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>
Nonsalary Related Expenses:								
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	294,533	-	294,533	297,975
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
Equipment rental	-	-	-	-	-	5,350	5,350	5,350
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>32,375</u>	<u>81,728</u>	<u>25,143</u>	<u>139,246</u>	<u>503,667</u>	<u>180,081</u>	<u>683,748</u>	<u>822,994</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>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 377,516</u>	<u>\$ 146,327</u>	<u>\$ 423,349</u>	<u>\$ 947,192</u>	<u>\$ 48,716</u>	<u>\$ 272,805</u>	<u>\$ 321,521</u>	<u>\$ 1,268,713</u>

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

	Program Services				Supporting Services			
	Museum Collections and Exhibits	Museum Store	Education, Outreach and Visitor Center	Total	Management and General	Fundraising	Total	Total
<u>Salaries and Related Expenses:</u>								
Salaries and wages	\$ 123,655	\$ 51,684	\$ 111,159	\$ 286,498	\$ 37,730	\$ 27,678	\$ 65,408	\$ 351,906
Payroll taxes and related costs	10,435	4,362	9,381	24,178	3,185	2,336	5,521	29,699
Employee benefits	9,300	3,887	8,360	21,547	2,839	2,082	4,921	26,468
Total Salaries and Related Expenses	<u>143,390</u>	<u>59,933</u>	<u>128,900</u>	<u>332,223</u>	<u>43,754</u>	<u>32,096</u>	<u>75,850</u>	<u>408,073</u>
<u>Nonsalary Related Expenses:</u>								
Administrative expenses	146	4,599	23,178	27,923	19,781	1,435	21,216	49,139
Advertising and marketing	500	-	5,953	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	111,152	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	578	1,721	629	1,155	1,784	3,505
Events	256	-	20,078	20,334	-	7,509	7,509	27,843
Exhibitions	9,124	3,582	-	12,706	-	-	-	12,706
Gifts, plaques and awards	-	46	714	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	1,003	1,183	840	217	1,057	2,240
Outside services	2,003	-	17,180	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	3,289	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>186,162</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>21,222</u>	<u>37,040</u>	<u>15,164</u>	<u>862</u>	<u>16,026</u>	<u>53,066</u>
TOTAL PROGRAM AND SUPPORTING SERVICES EXPENSES	<u>\$ 254,944</u>	<u>\$ 158,974</u>	<u>\$ 336,284</u>	<u>\$ 750,202</u>	<u>\$ 211,860</u>	<u>\$ 61,066</u>	<u>\$ 272,926</u>	<u>\$ 1,023,128</u>