

CORONADO HISTORICAL ASSOCIATION

AND CORONADO MUSEUM

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022



Leaf & Cole, LLP
Certified Public Accountants

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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Certified Public Accountants

A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Coronado Historical Association, Incorporated

Opinion

We have audited the accompanying financial statements of Coronado Historical Association, Incorporated (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coronado Historical Association, Incorporated as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Coronado Historical Association, Incorporated, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Coronado Historical Association, Incorporated's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Coronado Historical Association, Incorporated's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Coronado Historical Association, Incorporated's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Change in Accounting Principle

As described in Note 2 to the financial statements, Coronado Historical Association, Incorporated adopted accounting standards changes related to accounting for and disclosing leasing arrangements. Our opinion is not modified with respect to this matter.

Leaf & Cole LLP

San Diego, California
January 25, 2024

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

ASSETS		
	<u>2023</u>	<u>2022</u>
<u>Current Assets:</u> (Notes 2 and 6)		
Cash and cash equivalents	\$ 521,889	\$ 315,268
Accounts receivable	12,174	5,758
Contributions receivable	8,350	9,050
Inventory	11,509	12,140
Prepaid expenses	15,006	12,125
Total Current Assets	<u>568,928</u>	<u>354,341</u>
<u>Noncurrent Assets:</u> (Notes 2, 4, 5, 7, 8 and 11)		
Right of use asset - operating lease, net	12,740	-
Property and equipment, net	6,859,034	7,019,759
Restricted cash and investments:		
Board designated funds	<u>1,017,213</u>	<u>845,692</u>
Total Noncurrent Assets	<u>7,888,987</u>	<u>7,865,451</u>
TOTAL ASSETS	<u><u>\$ 8,457,915</u></u>	<u><u>\$ 8,219,792</u></u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u> (Notes 2, 8 and 11)		
Accounts payable and accrued expenses	\$ 12,386	\$ 40,338
Payroll and related liabilities payable	8,633	9,208
Deferred revenue	40,420	43,500
Operating lease liability, current	5,881	-
Current portion of notes payable	<u>36,410</u>	<u>4,327</u>
Total Current Liabilities	<u>103,730</u>	<u>97,373</u>
<u>Noncurrent Liabilities:</u> (Notes 8 and 11)		
Operating lease liability, net of current portion	6,577	-
Notes payable, net of current portion	<u>2,453,487</u>	<u>2,118,761</u>
Total Noncurrent Liabilities	<u>2,460,064</u>	<u>2,118,761</u>
Total Liabilities	<u>2,563,794</u>	<u>2,216,134</u>
<u>Commitments and Contingency</u> (Note 11)		
<u>Net Assets:</u> (Notes 2, 9 and 10)		
Without Donor Restrictions:		
Undesignated	4,876,908	5,157,966
Board designated funds	<u>1,017,213</u>	<u>845,692</u>
Total Without Donor Restrictions	<u>5,894,121</u>	<u>6,003,658</u>
Total Net Assets	<u>5,894,121</u>	<u>6,003,658</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,457,915</u></u>	<u><u>\$ 8,219,792</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, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue:</u>						
Membership dues	\$ 177,815	\$ -	\$ 177,815	\$ 163,595	\$ -	\$ 163,595
Grants	120,467	-	120,467	194,177	-	194,177
Contributions	96,394	-	96,394	100,975	-	100,975
In-kind contributions	79,637	-	79,637	4,731,436	-	4,731,436
Investment (loss) income	72,532	-	72,532	(105,926)	-	(105,926)
Museum store sales	70,659	-	70,659	80,893	-	80,893
Rental income, net of expenses of \$-0- and \$63,563	69,334	-	69,334	4,525	-	4,525
Education	67,887	-	67,887	55,057	-	55,057
Other income	48,208	-	48,208	58,469	-	58,469
Event income	29,628	-	29,628	54,100	-	54,100
Research library fees	1,090	-	1,090	3,858	-	3,858
Net assets released from restrictions	-	-	-	107,410	(107,410)	-
Total Support and Revenue	<u>833,651</u>	<u>-</u>	<u>833,651</u>	<u>5,448,569</u>	<u>(107,410)</u>	<u>5,341,159</u>
<u>Expenses:</u>						
Program Services:						
Museum collections and exhibits	505,847	-	505,847	351,960	-	351,960
Education and outreach	261,069	-	261,069	314,682	-	314,682
Museum store	75,847	-	75,847	77,839	-	77,839
Total Program Services	<u>842,763</u>	<u>-</u>	<u>842,763</u>	<u>744,481</u>	<u>-</u>	<u>744,481</u>
Supporting Services:						
Management and general	46,250	-	46,250	81,752	-	81,752
Fundraising	54,175	-	54,175	56,738	-	56,738
Total Supporting Services	<u>100,425</u>	<u>-</u>	<u>100,425</u>	<u>138,490</u>	<u>-</u>	<u>138,490</u>
Total Expenses	<u>943,188</u>	<u>-</u>	<u>943,188</u>	<u>882,971</u>	<u>-</u>	<u>882,971</u>
Change in Net Assets	(109,537)	-	(109,537)	4,565,598	(107,410)	4,458,188
Net Assets at Beginning of Year	<u>6,003,658</u>	<u>-</u>	<u>6,003,658</u>	<u>1,438,060</u>	<u>107,410</u>	<u>1,545,470</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,894,121</u>	<u>\$ -</u>	<u>\$ 5,894,121</u>	<u>\$ 6,003,658</u>	<u>\$ -</u>	<u>\$ 6,003,658</u>

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services				Supporting Services			
	Museum Collections and Exhibits	Education and Outreach	Museum Store	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses:								
Salaries and wages	\$ 145,261	\$ 92,462	\$ 21,056	\$ 258,779	\$ 5,838	\$ 6,481	\$ 12,319	\$ 271,098
Payroll taxes and related costs	11,661	7,680	1,749	21,090	485	538	1,023	22,113
Employee benefits	12,971	11,269	279	24,519	-	-	-	24,519
Total Salaries and Related Expenses	<u>169,893</u>	<u>111,411</u>	<u>23,084</u>	<u>304,388</u>	<u>6,323</u>	<u>7,019</u>	<u>13,342</u>	<u>317,730</u>
Nonsalary Related Expenses:								
Administrative expenses	11,553	3,667	5,025	20,245	553	1,398	1,951	22,196
Advertising and marketing	2,118	1,232	-	3,350	-	-	-	3,350
Buildings and grounds	42,285	32,888	2,819	77,992	9,396	6,578	15,974	93,966
Collection	4,668	-	-	4,668	-	-	-	4,668
Cost of goods sold	-	-	32,325	32,325	-	-	-	32,325
Dues and subscriptions	3,221	-	-	3,221	-	-	-	3,221
Events	19,023	8,715	321	28,059	-	18,111	18,111	46,170
Exhibitions	32,305	-	-	32,305	-	-	-	32,305
Gifts, plaques and awards	2,664	1,638	-	4,302	-	-	-	4,302
Information technology	10,156	260	1,229	11,645	1,536	-	1,536	13,181
In-kind expenses	77,182	1,370	925	79,477	-	160	160	79,637
Insurance	3,344	2,601	223	6,168	743	520	1,263	7,431
Interest	36,936	28,728	2,462	68,126	8,208	5,746	13,954	82,080
Miscellaneous	545	-	1,587	2,132	-	1,000	1,000	3,132
Outside services	1,939	344	-	2,283	-	-	-	2,283
Professional services	14,026	10,908	935	25,869	3,117	2,182	5,299	31,168
Supplies	309	-	-	309	-	-	-	309
Total Nonsalary Related Expenses	<u>262,274</u>	<u>92,351</u>	<u>47,851</u>	<u>402,476</u>	<u>23,553</u>	<u>35,695</u>	<u>59,248</u>	<u>461,724</u>
Depreciation	<u>73,680</u>	<u>57,307</u>	<u>4,912</u>	<u>135,899</u>	<u>16,374</u>	<u>11,461</u>	<u>27,835</u>	<u>163,734</u>
Total Expenses	<u>\$ 505,847</u>	<u>\$ 261,069</u>	<u>\$ 75,847</u>	<u>\$ 842,763</u>	<u>\$ 46,250</u>	<u>\$ 54,175</u>	<u>\$ 100,425</u>	<u>\$ 943,188</u>

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services				Supporting Services			
	Museum Collections and Exhibits	Education and Outreach	Museum Store	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses:								
Salaries and wages	\$ 104,468	\$ 122,535	\$ 16,837	\$ 243,840	\$ 9,963	\$ 5,300	\$ 15,263	\$ 259,103
Payroll taxes and related costs	10,237	10,168	1,665	22,070	1,369	478	1,847	23,917
Employee benefits	7,458	9,456	307	17,221	759	367	1,126	18,347
Total Salaries and Related Expenses	<u>122,163</u>	<u>142,159</u>	<u>18,809</u>	<u>283,131</u>	<u>12,091</u>	<u>6,145</u>	<u>18,236</u>	<u>301,367</u>
Nonsalary Related Expenses:								
Administrative expenses	1,766	6,212	5,760	13,738	12,353	2,441	14,794	28,532
Advertising and marketing	233	2,796	-	3,029	1,350	-	1,350	4,379
Buildings and grounds	78,734	61,238	5,249	145,221	17,496	12,248	29,744	174,965
Collection	6,835	-	-	6,835	-	-	-	6,835
Cost of goods sold	-	-	38,112	38,112	-	-	-	38,112
Dues and subscriptions	1,055	210	-	1,265	-	-	-	1,265
Events	3,943	2,165	20	6,128	-	20,670	20,670	26,798
Exhibitions	15,841	-	-	15,841	-	-	-	15,841
Gifts, plaques and awards	160	2,860	53	3,073	-	66	66	3,139
Information technology	7,231	2,080	1,507	10,818	2,062	-	2,062	12,880
Insurance	5,166	4,018	344	9,528	1,148	804	1,952	11,480
Interest	20,696	16,097	1,380	38,173	4,599	3,219	7,818	45,991
Miscellaneous	325	451	776	1,552	43	-	43	1,595
Outside services	15,792	14,125	-	29,917	14,527	-	14,527	44,444
Professional services	9,446	7,346	630	17,422	2,099	1,469	3,568	20,990
Supplies	367	4,542	1,052	5,961	160	-	160	6,121
Total Nonsalary Related Expenses	<u>167,590</u>	<u>124,140</u>	<u>54,883</u>	<u>346,613</u>	<u>55,837</u>	<u>40,917</u>	<u>96,754</u>	<u>443,367</u>
Depreciation	<u>62,207</u>	<u>48,383</u>	<u>4,147</u>	<u>114,737</u>	<u>13,824</u>	<u>9,676</u>	<u>23,500</u>	<u>138,237</u>
Total Expenses	<u>\$ 351,960</u>	<u>\$ 314,682</u>	<u>\$ 77,839</u>	<u>\$ 744,481</u>	<u>\$ 81,752</u>	<u>\$ 56,738</u>	<u>\$ 138,490</u>	<u>\$ 882,971</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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (109,537)	\$ 4,458,188
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	163,734	138,237
Amortization of debt issuance costs	4,679	3,355
Amortization of right of use asset	5,706	-
Net realized and unrealized (gains) losses on investments	(49,175)	119,748
Donated property	-	(4,700,000)
(Increase) Decrease in:		
Accounts receivable	(6,416)	(1,431)
Contributions receivable	700	(2,050)
Inventory	631	972
Prepaid expenses	(2,881)	46,195
Increase (Decrease) in:		
Accounts payable and accrued expenses	(27,952)	17,684
Payroll and related liabilities payable	(575)	(3,232)
Deferred revenue	(3,080)	43,500
Operating lease liability	(5,988)	-
Net Cash Provided by (Used in) Operating Activities	<u>(30,154)</u>	<u>121,166</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(3,009)	(2,003,903)
Investment (purchases) and sales, net	-	(1,250)
Restricted cash and investments (purchases) and sales, net	(122,346)	93,728
Net Cash Used in Investing Activities	<u>(125,355)</u>	<u>(1,911,425)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds from notes payable	400,000	2,095,000
Payments on notes payable	(3,437)	(11,054)
Payments for debt issuance costs	(34,433)	(134,213)
Net Cash Provided by Financing Activities	<u>362,130</u>	<u>1,949,733</u>
Net Increase in Cash and Cash Equivalents	206,621	159,474
Cash and Cash Equivalents at Beginning of Year	<u>315,268</u>	<u>155,794</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 521,889</u></u>	<u><u>\$ 315,268</u></u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	<u><u>\$ 70,093</u></u>	<u><u>\$ 43,639</u></u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	<u><u>\$ 6,174</u></u>	<u><u>\$ -</u></u>
Right of use assets after ASU 842 implementation	<u><u>\$ 18,446</u></u>	<u><u>\$ -</u></u>

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

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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. CHA preserves everything from 1880s newspapers to vintage garments, and over 20,000 photographs. In our galleries, CHA brings 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:

Historic 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 center, museum collections storage vault, Museum Store, and Tent City Restaurant.

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 statements of financial position, nor does it recognize gifts of collection items as revenues in the statements 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 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. A key outreach tool is CHA’s “History Matters,” which is published in partnership with the *Coronado Eagle and Journal*. We also utilize other publications such as the *Heritage Bulletin* eNewsletter and contribute scholarly informational articles in local journals and magazines.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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.

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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements

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.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method, based on management's evaluation of outstanding accounts receivable and pledges receivable. Management believes that all accounts receivable and contributions receivable are fully collectible; therefore, no allowance for doubtful accounts receivable and contributions receivable was recorded at June 30, 2023 and 2022.

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.

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

Buildings	40 years
Building improvements	7 - 30 years
Office furniture and equipment	3 - 7 years
Exhibit equipment and furniture	5 years

Depreciation totaled \$163,734 and \$138,237 for the years ended June 30, 2023 and 2022, 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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Impairment of Real Estate

CHA reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2023 and 2022.

Leases

CHA entered into an operating lease for office equipment in May 2020. The lease expires August 2025. Pursuant to the guidance for accounting for leases, CHA accounts for the operating leases as noted below.

CHA determines if an arrangement is a lease at inception. An arrangement is a lease if the arrangement conveys a right to direct the use of, and obtain substantially all of the economic benefits from, the use of an asset for a period of time in exchange for consideration. Operating leases are included in right-of-use ("ROU") assets – operating and lease liability – operating in the consolidated statement of financial position.

ROU assets represent CHA's right to use an underlying asset for the lease term and lease liabilities represent CHA's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that CHA will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. CHA has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right-of-use assets on the consolidated statement of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, CHA has elected to use the weighted average borrowing rate for computing the present value of lease liabilities.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain financing for CHA. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$4,679 and \$3,355 for the years ended June 30, 2023 and 2022, respectively.

Compensated Absences

Accumulated unpaid vacation totaling \$4,825 and \$4,086 at June 30, 2023 and 2022, respectively, is accrued when incurred, and included in payroll and related liabilities payable.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

Collections

In conformity with the practice followed by many museums and historical organizations, 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. The collection is maintained under the care of professional staff and is held for research, education, and public exhibition in furtherance of public service, rather than for financial gain. As a matter of policy, proceeds from the sale of collection items are used for the direct care of the collection or to acquire other items for the collection. Direct care of collections is defined by CHA as costs that prolong the life and usefulness of the collection, costs providing benefits that enhance the quality and protection of the collection, and costs that make a physical impact on collection objects, increasing or restoring their cultural or scientific value. Routine and ongoing expenditures are not considered direct care of collections.

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. 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, as determined by the item's Deed of Gift.

Revenue Recognition

Grants and contributions are recognized when the donor makes a promise to give to CHA that is in substance, unconditional. Grants and 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 grants and contributions are recognized. All other donor-restricted grants and 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.

CHA offers memberships that typically last for a term of one year. CHA divides fees from these memberships between contributions and exchange transactions and recognizes revenue for the contribution upon sale. The exchange portion is also recognized upon sale, since fees are non-refundable and used to fund CHA's mission and access programs.

Museum store sales are recognized as revenue when the sale transaction occurs.

CHA recognizes revenue from education program fees, event income, rental income, and research library fees upon sale or date of service, as applicable.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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 for the years ended June 30, 2023 and 2022 did not meet the requirements above; therefore, no amounts were recognized in the financial statements.

CHA received the following in-kind donations which are recorded at fair value for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Artwork	\$ 79,045	\$ -
Supplies and materials	592	125
Property – land and building	-	4,700,000
Rent	-	31,311
Total In-Kind Contributions	<u>\$ 79,637</u>	<u>\$ 4,731,436</u>

In valuing artwork CHA received an appraisal of the fair market value from an independent appraiser at the time of the gift.

In valuing supplies and materials CHA estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

In valuing the land and building, CHA estimated the fair value based on an independent appraisal of the property at the time of purchase. The difference between the purchase price and the fair value has been recorded as an in-kind contribution (Note 11).

CHA leased property at below-market rates (Note 11). These amounts have been recorded as in-kind contributions and as buildings and grounds expense.

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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 2 - Significant Accounting Policies: (Continued)

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, 2023 and 2022. 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, 2023, 2022, 2021, and 2020 are subject to examination by Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

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.

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. Cash and cash equivalents that are board-designated endowment funds are held for long-term purposes, and are not included in cash and cash equivalents.

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("*ASC*") 842, *Leases* ("*FASB ASC 842*") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the consolidated statement of financial position by lessees, and the disclosures of key information about leasing arrangements.

CHA adopted this guidance Accounting Standards Codification (ASC) 842 in 2022 using the effective date transition method which allows CHA to apply the guidance for the current-year presentation and not adjust the prior-year numbers. CHA elected the package of practical expedients that allows an entity to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases and (iii) initial direct costs for any expired or existing leases. CHA did not elect to use hindsight for leases existing at the adoption date.

As a result of the adoption of FASB ASC 842 on July 1, 2022, right of use asset of \$18,446 and finance lease liability of \$18,466 were recorded.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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 25, 2024, 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 - 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:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 521,889	\$ 315,268
Accounts receivable	12,174	5,758
Contributions receivable	<u>8,350</u>	<u>9,050</u>
Financial assets available to meet general expenditures within one year	<u>\$ 542,413</u>	<u>\$ 330,076</u>

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 Board-designated 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.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 4 - Fair Value Measurements:

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

	2023			
	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, 2023
Mutual funds	\$ 359,282	\$ -	\$ -	\$ 359,282

	2022			
	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, 2022
Mutual funds	\$ 845,651	\$ -	\$ -	\$ 845,651

Note 5 - Investments:

Investments consist of the following at June 30:

	2023	2022
Mutual funds	\$ 359,282	\$ 845,651
Total Investments	\$ 359,282	\$ 845,651

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

	2023	2022
Mutual Funds	\$ 359,282	\$ 845,651
Cash and money market funds	151,404	41
Certificates of deposit	506,527	-
Total Restricted Cash and Investments	\$ 1,017,213	\$ 845,692

Certificates of deposit included in restricted cash investments bear interest at rates ranging from 4.45% to 5.00% and mature through January 2024.

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

	2023	2022
Interest and dividends	\$ 24,594	\$ 15,260
Net realized and unrealized gains (losses)	49,175	(119,748)
Investment fees	(1,237)	(1,437)
Total Investments Income (Loss)	\$ 72,532	\$ (105,926)

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 6 - Contributions Receivable:

Contributions receivable totaling \$8,350 and \$9,050 at June 30, 2023 and 2022, respectively, are due in less than one year.

Note 7 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 2,300,000	\$ 2,300,000
Building	4,400,000	4,400,000
Building improvement	1,378,477	1,375,468
Office furniture and equipment	40,163	44,362
Collections and exhibitions	28,058	28,058
Subtotal	<u>8,146,698</u>	<u>8,147,888</u>
Less: Accumulated depreciation	<u>(1,287,664)</u>	<u>(1,128,129)</u>
Property and Equipment, Net	<u>\$ 6,859,034</u>	<u>\$ 7,019,759</u>

Note 8 - Notes Payable:

Notes payable consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
The note payable which was originated on May 1, 2020 is held by the City of Coronado (the "City") under the Life Business Loan Program, in the original amount of \$15,000. On June 16, 2020, the City authorized an additional \$5,000, which was advanced on July 2, 2020. The loan is noninterest-bearing. Principal payments are due monthly in the amount of \$333, beginning on January 1, 2022, until the loan is paid in full. The loan is unsecured.	\$ 16,000	\$ 19,334

The loan payable, which was originated on August 28, 2020, is held by the U.S. Small Business Administration in the original amount of \$150,000. Interest is accrued at 2.75% per annum. Monthly principal and interest payments of \$641 are due beginning August 28, 2022. The loan is due August 28, 2050. Secured by property and equipment. Accrued interest totaled \$2,810 and \$2,665 at June 30, 2023 and 2022, respectively, and is included in accounts payable and accrued expenses.

	139,509	139,612
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CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 8 - Notes Payable: (Continued)

The California Enterprise Development Authority Series A Bonds which were originated on October 29, 2021 are held by First Republic Bank in the original amount of \$1,600,000 and bear interest at 2.90%. Interest-only payments are required beginning December 1, 2021 through October 1, 2023. Beginning November 1, 2023, monthly payments of principal and interest in the amount of \$6,995 are required. The loan is due October 1, 2051. Secured by a Deed of Trust. Accrued interest totaled \$3,867 and \$-0- at June 30, 2023 and 2022, respectively, and is included in accounts payable and accrued expenses.

	1,600,000	1,600,000
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The California Enterprise Development Authority Series B Bonds which were originated on October 29, 2021 are held by First Republic Bank in the original amount of \$495,000, and bear interest at 3.75%. Interest-only payments are required beginning December 1, 2021 through October 1, 2023. Beginning November 1, 2023, monthly payments of principal and interest in the amount of \$2,397 are required. The loan is due October 1, 2051. Secured by a Deed of Trust. Accrued interest totaled \$1,547 and \$-0- at June 30, 2023 and 2022, respectively, and is included in accounts payable and accrued expenses.

	495,000	495,000
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The California Enterprise Development Authority bonds which were originated on May 25, 2023 are held by First Republic Bank in the original amount of \$400,000, and bear interest at 5.25%. Interest-only payments are required beginning June 1, 2023 through May 1, 2025. Beginning June 1, 2025, monthly payments of principal and interest in the amount of \$2,354 are required. The loan is due October 1, 2051. Secured by a Deed of Trust. Accrued interest totaled \$1,750 and \$-0- at June 30, 2023 and 2022, respectively, and is included in accounts payable and accrued expenses.

	400,000	-
Total Notes Payable	2,650,509	2,253,946
Less: Unamortized debt issuance costs	(160,612)	(130,858)
Total Notes Payable, net	2,489,897	2,123,088
Less: Current Portion	(36,410)	(4,327)
Notes Payable, Net, Noncurrent	\$ 2,453,487	\$ 2,118,761

Debt issuance costs total \$168,646 and \$134,213, less accumulated amortization of \$8,034 and \$3,355 at June 30, 2023 and 2022, respectively.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 8 - Notes Payable: (Continued)

The future principal payments on the note payables are as follows:

Years Ended June 30	
2024	\$ 36,410
2025	56,992
2026	65,247
2027	67,338
2028	65,285
Thereafter	<u>2,359,237</u>
Total	<u>\$ 2,650,509</u>

Note 9 - Board-Designated Funds:

CHA's Board of Directors have designated a portion of its resources without donor restriction for the following purpose at June 30:

	<u>2023</u>	<u>2022</u>
Board-Designated funds:		
CHA mission support	\$ 1,017,213	\$ 845,692
Total Board-Designated Funds	<u>\$ 1,017,213</u>	<u>\$ 845,692</u>

Note 10 - 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. There were no net assets with donor-imposed restrictions at June 30, 2023 and 2022.

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>2023</u>	<u>2022</u>
Purpose Restrictions Accomplished:		
Comprehensive campaign	\$ -	\$ 106,210
Exhibit	<u>-</u>	<u>1,200</u>
Total Net Assets Released from Restrictions	<u><u>\$ -</u></u>	<u><u>\$ 107,410</u></u>

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 11 - Commitment:

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 \$-0- and 106,795 for the years ended June 30, 2023 and 2022, respectively.

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 recognized due to below-market rates totaled \$-0- and \$31,311 for the years ended June 30, 2023 and 2022, respectively.

The rent paid by CHA for the year ended June 30, 2022 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 \$63,563 for the year ended June 30, 2022, and has been recorded as a reduction in rent expense. For the year ended June 30, 2023, rental income from those subleases totaled \$64,834 and is included in rental income. 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. 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.

In October 2021, CHA exercised the Option and purchased the Building and Land for \$2,000,000. An independent appraisal in 2021 valued the Building and Land at \$6,700,000, and the gift from the Budingers to CHA was recorded at \$4,700,000 as an in-kind contribution.

The independent appraiser included a land value at the request of CHA. The appraiser valued the land at \$2,300,000 and notes the following: the building is deemed historic and cannot be redeveloped. In addition, there are leases in place. In this case the land value is hypothetical. A hypothetical condition is defined as "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is not used for the purposes of analysis."

Retirement Plan

CHA has a retirement benefit plan (the "Plan") for eligible employees. The Plan allows for employee contributions up to the maximum amount allowed by the Internal Revenue Code. CHA may make discretionary matching and nonelective contributions if an eligible employee contributes to the Plan. CHA's contributions totaled \$7,440 and \$5,889 for the years ended June 30, 2023 and 2022, respectively, and is included in employee benefits in the statement of functional expenses.

CORONADO HISTORICAL ASSOCIATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

Note 11 - Commitment: (Continued)

Operating Lease

CHA entered into an operating lease for office equipment in May 2020. The lease expires August 2025. Lease expense for the lease was \$6,174 for the years ended June 30, 2023 and 2022.

The following summarizes the line items on the statement of financial position for the operating lease at June 30, 2023:

Operating lease right-of-use asset	\$ <u>12,740</u>
Operating lease liabilities, current	5,881
Operating lease liabilities, noncurrent portion	<u>6,577</u>
Total operating lease liabilities	<u>\$ 12,458</u>

The following summarizes the weighted average remaining lease term and discount rate as of June 30:

Weighted average remaining lease term - Operating	2.2 years
Weighted average incremental borrowing rate - Operating	3.05%

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2023:

Operating lease expense	\$ <u>6,174</u>
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The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Operating cash flows from operating leases	\$ <u>6,174</u>
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The following is a schedule of future minimum rental payments under the lease:

Years Ended June 30	
2024	\$ 6,174
2025	6,174
2026	<u>1,029</u>
Total Payments	\$ 13,377
Less: Interest	<u>(919)</u>
Present value of lease liabilities	<u>\$ 12,458</u>