

THE CHINATI FOUNDATION

Financial Statements and
Supplementary Information

December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)

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 **DoerenMayhew**
CPAs AND ADVISORS

THE CHINATI FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Chinati Foundation

We have audited the accompanying financial statements of The Chinati Foundation (the "Museum"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the Museum as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matter - 2012 Financial Statements

The financial statements of the Museum as of December 31, 2012, were audited by other auditors whose report dated June 11, 2013, expressed an unmodified opinion on those statements.

A handwritten signature in cursive script that reads "Aileen Mayhew".

Houston, Texas
October 20, 2014

THE CHINATI FOUNDATION

**Statements of Financial Position
December 31, 2013 and 2012**

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 410,026	\$ 384,011
Contributions receivable	18,350	10,000
Grants receivables	15,000	56,135
Other receivables	4,456	27,608
Inventory	211,004	234,557
Prepaid expenses	38,402	31,375
Investment in marketable securities	12,928,506	11,589,700
Restricted cash	1,194,726	961,937
Contributions receivable - capital campaign	190,000	-
Other assets - art installation	321,059	179,121
Property and equipment - net	821,006	843,647
Total assets	<u>\$ 16,152,535</u>	<u>\$ 14,318,091</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 45,507	\$ 8,620
Accrued expenses	37,926	60,441
Debt	65,028	72,731
Total liabilities	<u>148,461</u>	<u>141,792</u>
Net Assets:		
Unrestricted net assets	1,695,445	1,051,249
Temporarily restricted net assets	1,341,207	190,628
Permanently restricted net assets	12,967,422	12,934,422
Total net assets	<u>16,004,074</u>	<u>14,176,299</u>
Total liabilities and net assets	<u>\$ 16,152,535</u>	<u>\$ 14,318,091</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

**Statements of Activities and Changes in Net Assets
Years Ended December 31, 2013 and 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:								
Contributions	\$ 814,617	\$ 302,357	\$ -	\$ 1,116,974	\$ 747,256	\$ 223,248	\$ -	\$ 970,504
Grants	165,500	142,662	-	308,162	256,025	180,435	-	436,460
Memberships	123,835	-	-	123,835	116,660	-	-	116,660
Museum store sales	124,489	-	-	124,489	148,686	-	-	148,686
Admissions	161,290	-	-	161,290	145,572	-	-	145,572
Other revenue	20,410	-	-	20,410	61,781	-	-	61,781
Net assets released from restrictions to fund operating expenses	990,872	(990,872)	-	-	832,551	(832,551)	-	-
Total operating revenue and support	2,401,013	(545,853)	-	1,855,160	2,308,531	(428,868)	-	1,879,663
Operating expenses:								
Program services	1,477,001	-	-	1,477,001	1,172,634	-	-	1,172,634
Supporting services:								
Administrative	578,391	-	-	578,391	781,744	-	-	781,744
Fundraising	342,587	-	-	342,587	287,328	-	-	287,328
Total operating expenses before depreciation and amortization	2,397,979	-	-	2,397,979	2,241,706	-	-	2,241,706
Operating surplus (deficit) before depreciation and amortization	3,034	(545,853)	-	(542,819)	66,825	(428,868)	-	(362,043)
Depreciation and amortization	51,728	-	-	51,728	52,195	-	-	52,195
Surplus (deficit) of operating revenue and support over operating expenses	(48,694)	(545,853)	-	(594,547)	14,630	(428,868)	-	(414,238)
Nonoperating revenue, support and expenses:								
Contributions designated for capital expenditures and long term investment	-	545,848	33,000	578,848	-	-	15,000	15,000
Dividends and interest	335	499,605	-	499,940	52,197	475,000	-	527,197
Realized and unrealized gain on securities	526,278	817,256	-	1,343,534	831,216	-	-	831,216
Net assets released from restrictions to fund nonoperating expenses	166,277	(166,277)	-	-	61,674	(61,674)	-	-
Change in net assets before collection items not capitalized	644,196	1,150,579	33,000	1,827,775	959,717	(15,542)	15,000	959,175
Collection items purchased, but not capitalized	-	-	-	-	-	-	90,000	90,000
Change in net assets	644,196	1,150,579	33,000	1,827,775	959,717	(15,542)	(75,000)	869,175
Net assets at beginning of year	1,051,249	190,628	12,934,422	14,176,299	91,532	206,170	13,009,422	13,307,124
Net assets at end of year	<u>\$ 1,695,445</u>	<u>\$ 1,341,207</u>	<u>\$ 12,967,422</u>	<u>\$ 16,004,074</u>	<u>\$ 1,051,249</u>	<u>\$ 190,628</u>	<u>\$ 12,934,422</u>	<u>\$ 14,176,299</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

Statements of Cash Flows December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,827,775	\$ 869,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,728	52,195
Contributions restricted for endowment	(33,000)	(15,000)
(Gain) loss on sale of assets	(4,750)	199
Realized and unrealized gain on securities	(1,343,534)	(831,216)
Changes in:		
Receivables	(134,063)	72,748
Inventory	23,553	25,836
Prepaid expenses	(7,027)	1,539
Accounts payable	36,887	(23,095)
Accrued expenses	(22,515)	(9,550)
Net cash provided by operating activities	395,054	142,831
Cash flows from investing activities:		
Purchase of property and equipment	(29,087)	(46,351)
Proceeds from sale of property and equipment	4,750	2,800
Purchases for art installation	(141,938)	(61,678)
Change in restricted cash	(232,789)	216,654
Purchase of marketable securities	(2,803,806)	(681,290)
Proceeds from sale of marketable securities	2,808,534	489,800
Net cash used by investing activities	(394,336)	(80,065)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	33,000	15,000
Principal payments on long-term debt	(7,703)	(8,071)
Net cash provided by financing activities	25,297	6,929
Net increase in cash and cash equivalents	26,015	69,695
Cash and cash equivalents beginning of year	384,011	314,316
Cash and cash equivalents at end of year	\$ 410,026	\$ 384,011
Supplemental disclosures of cash flow information - cash paid for interest	\$ 4,747	\$ 5,538
Supplemental disclosure of noncash investing activities - pledge receivable satisfied with donated art	\$ -	\$ 90,000

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Organization

The Chinati Foundation (the “Museum”) is a not-for-profit museum for contemporary and modern art, located in Marfa, Texas, created and founded by the late artist Donald Judd. Its mission is to present, on a permanent basis, a selection of work by a limited number of distinguished artists, each work installed according to the artists’ specifications.

With initial funding from New York’s Dia Center for the Arts, the Museum was first established as the Art Museum of the Pecos in the early 1980s, but became independent of Dia, governed by an independent Board of Directors, and managed by a professional staff in 1986.

In addition to maintaining and preserving the permanent collection, the Museum supports a broad range of educational programs that include special exhibitions, artists in residence, university and college internships, student and family art classes and workshops, lectures and performances, and regular publications.

Note 2 - Significant Accounting Policies

A summary of the significant accounting policies followed by the Museum in the preparation of the accompanying financial statements is set forth below.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Basis of Presentation

Under these provisions, net assets and revenue, expenses, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria.

Unrestricted Net Assets - Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restriction. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the “Board”).

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Significant Accounting Policies (Continued)

Temporarily Restricted Net Assets - Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporarily restricted assets may expire with the passage of time, as a result of actions taken by the Museum that fulfills donors' restrictions, or as a result of expenditures that have been charged to temporarily restricted assets. When temporarily restricted net assets are released from restrictions, they are transferred to unrestricted net assets and shown as net assets released from restrictions in the statements of activities and changes in net assets. Transfers from assets occur even if the contributions are received and spent within the same year.

Permanently Restricted Net Assets - Permanently restricted net assets, including endowments received by the Museum, are subject to irrevocable donor restrictions requiring the assets to be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations.

Use of Estimates

The preparation of financial statements in accordance with GAAP 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Museum considers all investments with original maturities of less than three months to be cash equivalents.

Cash and cash equivalents in the Museum's endowment are considered long-term investments. Amounts excluded are cash and cash equivalents that are classified as restricted cash. At December 31, 2013 and 2012, restricted cash and cash equivalents amounted to \$1,194,726 and \$961,937, respectively.

Investments

Investments in short-term instruments, fixed-income securities, and equity securities are carried at fair value as discussed in Note 4. Purchases and sales of investments are reflected on a trade date basis. Gains and losses on the sale of securities are based on the difference between the sale price and the average historical cost basis for purchased securities or the fair market value at the date of receipt for securities received by donation. The Museum has an investment policy that sets guidelines and constraints to provide for appropriate diversification of the portfolio.

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Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Significant Accounting Policies (Continued)

Receivables

Pledges and grants receivable are recorded as revenue in the year they are received unless they contain a conditional promise to give. Receivables that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material.

The allowance for doubtful accounts is established as losses are estimated to have occurred through the provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. There was no allowance or bad debt written-off in 2013 or 2012.

Inventory

Inventory consists of merchandise, catalogs of the Museum, catalogs of various artists, and various artists' prints whose works have been exhibited at the Museum. These catalogs and prints are distributed to contributors. Some of the catalogs were purchased and some of the prints and catalogs have been donated to the Museum. Prints and catalogs have been recorded at estimated cost. Merchandise inventories are at the lower of average cost or market.

Permanent Collection

The permanent collection began with donations of works of art from the Dia Art Foundation ("Dia") and was expanded by additional gifts after the separation from Dia. The majority of the collection is on permanent display in the exhibition spaces protected and preserved by the Museum on the site of the former Fort D. A. Russell in the town of Marfa, Texas. In accordance with accounting principles generally followed by art museums, the value of the Museum's collection has been excluded from the statements of financial position.

The collection was acquired through purchases and contributions. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Significant Accounting Policies (Continued)

Other Assets - Art Installation

The art installation will be part of the Museum's permanent collection on permanent display upon completion of the installation. The permanent collection will be protected and preserved by the Museum. Installation purchases of the permanent collection are recorded as increases in other assets during the installation period. Upon completion, the permanent collection will be recorded as a decrease within the related net asset classification on the statement of activities and changes in net assets.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value, if donated. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service, as instructed by the donor. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Buildings	39-40 years
Improvements	10 years
Furniture, fixtures and equipment	5-12 years
Automobiles	5 years

Expenditures for major acquisitions and improvements over \$500 are capitalized. Expenditures for maintenance and repairs, that do not extend the useful life of the asset, are expensed as incurred.

Impairment of Long-Lived Assets

The Museum reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Museum did not recognize an impairment loss during the years ended December 31, 2013 and 2012.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Significant Accounting Policies (Continued)

Federal Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. The Museum records charges for uncertain tax positions when they are considered probable. Based on its evaluation, the Museum has concluded that there are no significant uncertain tax positions requiring recognition in the financial statements. The Museum's evaluation was performed for tax periods 2010 through 2013. The Museum is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. The Museum is no longer subject to income tax examinations by taxing authorities for the years before 2010.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Advertising Costs

Advertising costs, direct or indirect, are expensed as incurred. Advertising costs for the years ended December 31, 2013 and 2012 totaled \$7,142 and \$3,636, respectively.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Pledges are recorded when a written commitment is received.

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2013 and 2012, the Museum received \$67,995 and \$40,000 in contributed legal services, respectively.

Membership dues are recognized as revenue when received since they are considered contributions to the Museum and are not refunded for terminations during the year. Admission revenue is recognized when received and the related Museum tours have been provided.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Significant Accounting Policies (Continued)

Museum Operations

The Museum includes in its measure of operations all revenues and expenses that are an integral part of its program services and supporting activities. These are earned and incurred as part of the regular business operations. Museum operations does not include contributions designated for long term investments, capital expenditures and art purchases, investment income, permanently restricted contributions and one time or unusual expenses. Net assets released from restrictions are reported as operating and non-operating according to the nature of the expense.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform with the current year presentation.

Subsequent Events

The Museum has evaluated subsequent events through October 20, 2014, the date the financial statements were available to be issued.

Note 3 - Contributions and Grants Receivable

Contributions and grants receivable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Amounts to be collected within one year	\$ 156,350	\$ 66,135
Amounts to be collected one to five years	<u>67,000</u>	<u>-</u>
Total contributions and grants receivable	<u>\$ 223,350</u>	<u>\$ 66,135</u>
Grants receivable	\$ 15,000	\$ 56,135
Contributions receivable	18,350	10,000
Contributions receivable - capital campaign	<u>190,000</u>	<u>-</u>
Total contributions and grants receivable	<u>\$ 223,350</u>	<u>\$ 66,135</u>

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Notes to Financial Statements December 31, 2013 and 2012

Note 4 - Fair Value Measurements

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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Notes to Financial Statements December 31, 2013 and 2012

Note 4 - Fair Value Measurements (Continued)

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
U.S. Fixed Income Funds	\$ 1,195,936	\$ -	\$ -	\$ 1,195,936
U.S. Equity Index Funds	4,310,849	-	-	4,310,849
Foreign Equity Funds	<u>1,550,222</u>	<u>-</u>	<u>-</u>	<u>1,550,222</u>
Total mutual funds	<u>7,057,007</u>	<u>-</u>	<u>-</u>	<u>7,057,007</u>
Equities:				
U.S. Equities	1,790,471	-	-	1,790,471
Foreign Equities	<u>1,087,920</u>	<u>-</u>	<u>-</u>	<u>1,087,920</u>
Total equities	<u>2,878,391</u>	<u>-</u>	<u>-</u>	<u>2,878,391</u>
Fixed Income:				
U.S. Government	748,296	-	-	748,296
U.S. Corporate	<u>2,244,812</u>	<u>-</u>	<u>-</u>	<u>2,244,812</u>
Total fixed income	<u>2,993,108</u>	<u>-</u>	<u>-</u>	<u>2,993,108</u>
Total investments	<u>\$ 12,928,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,928,506</u>
<u>December 31, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
U.S. Fixed Income Funds	\$ 1,210,660	\$ -	\$ -	\$ 1,210,660
U.S. Equity Index Funds	2,884,750	-	-	2,884,750
Foreign Equity Funds	<u>1,479,792</u>	<u>-</u>	<u>-</u>	<u>1,479,792</u>
Total mutual funds	<u>5,575,202</u>	<u>-</u>	<u>-</u>	<u>5,575,202</u>
Equities:				
U.S. Equities	2,125,125	-	-	2,125,125
Foreign Equities	<u>1,071,899</u>	<u>-</u>	<u>-</u>	<u>1,071,899</u>
Total equities	<u>3,197,024</u>	<u>-</u>	<u>-</u>	<u>3,197,024</u>
Fixed Income:				
U.S. Government	421,903	-	-	421,903
U.S. Corporate	<u>2,395,571</u>	<u>-</u>	<u>-</u>	<u>2,395,571</u>
Total fixed income	<u>2,817,474</u>	<u>-</u>	<u>-</u>	<u>2,817,474</u>
Total investments	<u>\$ 11,589,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,589,700</u>

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Notes to Financial Statements December 31, 2013 and 2012

Note 4 - Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2013 from December 31, 2012.

Mutual funds are valued at the net asset value of shares held at year end. Equities are valued at the closing price reported on the active market on which the individual securities are traded. Fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

The fair value of the Museum's cash and cash equivalents, receivables, prepaid expenses, other assets, payables, and accrued expenses approximates the carrying amounts of such instruments due to their short maturity. The fair value of the debt approximates the carrying amount because the rate and terms currently available to the Museum approximate the rate and terms on the existing debt.

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 236,487	\$ 236,487
Buildings and improvements	950,811	949,413
Furniture, fixtures, and equipment	330,465	322,202
Automobiles	<u>35,678</u>	<u>32,811</u>
Property and equipment	1,553,441	1,540,913
Less: accumulated depreciation	<u>(732,435)</u>	<u>(697,266)</u>
Property and equipment - net	<u>\$ 821,006</u>	<u>\$ 843,647</u>

Depreciation expense was \$51,728 and \$52,195 for the years ended December 31, 2013 and 2012, respectively.

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**Notes to Financial Statements
December 31, 2013 and 2012**

Note 6 - Debt

Debt consists of the following at December 31:

	<u>2013</u>	<u>2012</u>
Note payable to Marfa National Bank; collateralized by property of with a book value of approximately \$125,838; due in monthly installments of \$818, including interest adjusted annually to prime (6.90% and 3.25% at December 31, 2013 and 2012, respectively), plus 1.00%, with a floor of 7%; due November 2022.	\$ 65,028	\$ 70,106
Note payable to American Honda, bearing interest at 9.98%; due in monthly installments of \$342; due August 2013.	-	2,625
	<u>\$ 65,028</u>	<u>\$ 72,731</u>

Future maturities on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 5,442
2015	5,835
2016	6,246
2017	6,708
2018	7,351
Thereafter	<u>33,446</u>
Total	<u>\$ 65,028</u>

Note 7 - Temporarily Restricted Net Assets

The Museum's temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2013</u>	<u>2012</u>
Robert Irwin Project - Art Installation	\$ 456,888	\$ 77,318
John Chamberlain Building Restoration	97,090	57,175
Artillery Sheds Assessment	65,079	50,000
Paper Conservation Project	17,245	-
Education/Outreach	13,500	6,135
Internship Program	5,000	-
General Operations	<u>686,405</u>	<u>-</u>
	<u>\$ 1,341,207</u>	<u>\$ 190,628</u>

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 7 - Temporarily Restricted Net Assets (Continued)

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2013</u>	<u>2012</u>
Robert Irwin Installation	\$ 166,277	\$ 61,674
Artillery Sheds Assessment	119,921	25,000
Chinati Weekend	103,950	92,350
Education/Outreach	68,870	132,254
Newsletter	30,000	20,360
Internship Program	18,000	5,000
Artist in Resident	5,000	5,000
Community Day	2,700	3,483
Community Garden	1,189	-
John Chamberlain Building Restoration	1,180	-
Ilya Kabakov Building Restoration	105	-
Oldenburg Restoration	-	74,104
General Operations	<u>639,957</u>	<u>475,000</u>
	<u>\$ 1,157,149</u>	<u>\$ 894,225</u>

Note 8 - Permanently Restricted Net Assets

The Museum has an endowment fund to which donors have permanently restricted their contributions. According to the investment guidelines set forth by the Board, up to 5% of the total corpus is available to be transferred to unrestricted funds on an annual basis.

Interpretation of Relevant Law

The Board of the Museum has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of 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, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Permanently Restricted Net Assets (Continued)

In accordance with SPMIFA, the Museum 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 the organization 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 the Museum, and
- The investment policies of the Museum.

The composition of donor-restricted endowment net assets as of December 31, 2013 and 2012 and the changes in the endowment funds for the years then ended is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ (1,351,669)	\$ -	\$12,919,422	\$11,567,753
Contributions to perpetual endowment	-	-	15,000	15,000
Investment income	526,748	-	-	526,748
Net appreciation of investments	831,216	-	-	831,216
Investment management fees	(57,573)	-	-	(57,573)
Amounts appropriated for expenditure	<u>(475,000)</u>	<u>-</u>	<u>-</u>	<u>(475,000)</u>
Endowment net assets, December 31, 2012	(526,278)	-	12,934,422	12,408,144
Contributions to perpetual endowment	-	-	33,000	33,000
Investment income	-	499,605	-	499,605
Net appreciation of investments	526,278	817,256	-	1,343,534
Investment management fees	-	(64,957)	-	(64,957)
Amounts appropriated for expenditure	<u>-</u>	<u>(575,000)</u>	<u>-</u>	<u>(575,000)</u>
Endowment net assets, December 31, 2013	<u>\$ -</u>	<u>\$ 676,904</u>	<u>\$12,967,422</u>	<u>\$13,644,326</u>

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Permanently Restricted Net Assets (Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) consist of the following:

	<u>2013</u>	<u>2012</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	<u>\$ 12,967,422</u>	<u>\$ 12,934,422</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA without purpose restrictions	<u>\$ 676,904</u>	<u>\$ -</u>

Funds With Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets which totaled \$0 and \$526,278 as of December 31, 2013 and 2012, respectively.

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s), as well as Board-designated funds. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 6+% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum 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). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk restraints.

THE CHINATI FOUNDATION

Notes to Financial Statements December 31, 2013 and 2012

Note 8 - Permanently Restricted Net Assets (Continued)

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Museum has a policy of appropriating for distribution each year at a maximum 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered its long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an average of 6+% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 9 - Operating Lease Commitments

The Museum has operating leases for office equipment. Rent expense for the years ended December 31, 2013 and 2012 totaled \$12,062 and \$11,119, respectively.

Future minimum operating lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 10,737
2015	8,785
2016	7,980
2017	<u>6,849</u>
Total	<u>\$ 34,351</u>

Note 10 - Concentrations

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management has not experienced any losses in such accounts and believes the Museum is not exposed to any significant credit risks on cash and cash equivalents.

For the years ended December 31, 2013 and 2012, the Museum received contributions from a wide variety of donors and, therefore, was not dependent on a few donors to support its operations. For the years ended December 31, 2013 and 2012, contributions totaling \$1,266,599 and \$620,402, respectively, were made to the Museum by members of the Board of Directors for operating and capital campaign support.

SUPPLEMENTARY INFORMATION

THE CHINATI FOUNDATION

**Schedule of Functional Expenses
Year Ended December 31, 2013**

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 6,314	\$ 828	\$ -	\$ 7,142
Art restoration	136,244	-	-	136,244
Automobile	7,986	1,997	-	9,983
Contract services	143,651	20,388	47,182	211,221
Credit card processing fees	-	19,420	-	19,420
Depreciation	49,142	2,586	-	51,728
Development	-	-	13,664	13,664
Educational programs	75,062	-	-	75,062
Employee benefits	57,246	17,056	20,993	95,295
Events	68,362	-	-	68,362
Exhibits	86,917	-	-	86,917
Insurance	55,486	10,404	3,468	69,358
Interest	4,747	-	-	4,747
Maintenance	17,694	4,423	-	22,117
Merchandise cost	-	54,049	-	54,049
Miscellaneous	2,490	21,820	-	24,310
Office expense	27	37,649	1,243	38,919
Postage	-	5,491	9,185	14,676
Printing	1,766	1,118	1,429	4,313
Professional fees	3,762	181,182	5,752	190,696
Property tax	-	1,935	-	1,935
Publications	34,979	-	-	34,979
Salaries	649,117	193,397	238,038	1,080,552
Telephone	7,620	1,633	1,633	10,886
Travel and entertainment	67,117	-	-	67,117
Utilities	50,414	5,601	-	56,015
	<u>\$ 1,526,143</u>	<u>\$ 580,977</u>	<u>\$ 342,587</u>	<u>\$ 2,449,707</u>

THE CHINATI FOUNDATION

**Schedule of Functional Expenses
Year Ended December 31, 2012**

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 2,200	\$ 190	\$ 1,246	\$ 3,636
Art restoration	65,039	-	-	65,039
Automobile	7,905	1,976	-	9,881
Contract services	89,490	1,795	41,431	132,716
Credit card processing fees	-	15,937	-	15,937
Depreciation	49,585	2,610	-	52,195
Development	-	-	12,076	12,076
Educational programs	74,741	-	-	74,741
Employee benefits	41,829	28,854	13,729	84,412
Events	80,555	-	-	80,555
Exhibits	3,086	-	-	3,086
Insurance	49,933	9,362	3,121	62,416
Interest	5,538	-	-	5,538
Maintenance	23,904	5,976	-	29,880
Merchandise cost	-	59,177	-	59,177
Miscellaneous	1,400	11,499	-	12,899
Office expense	30	32,849	-	32,879
Postage	-	4,582	7,584	12,166
Printing	449	4,599	7,114	12,162
Professional fees	313	189,511	-	189,824
Property tax	-	1,956	-	1,956
Publications	33,773	-	-	33,773
Salaries	588,992	406,297	193,319	1,188,608
Telephone	9,514	2,039	2,039	13,592
Travel and entertainment	47,635	-	5,669	53,304
Utilities	46,308	5,145	-	51,453
	<u>\$ 1,222,219</u>	<u>\$ 784,354</u>	<u>\$ 287,328</u>	<u>\$ 2,293,901</u>