

THE CHINATI FOUNDATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016 AND 2015
(With Independent Auditor's Report Thereon)

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 **DoerenMayhew**
CPAs AND ADVISORS

THE CHINATI FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of **The Chinati Foundation**

We have audited the accompanying financial statements of The Chinati Foundation (the Museum), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Houston, Texas
January 10, 2018

THE CHINATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents (Note 11)	\$ 1,412,360	\$ 1,044,970
Contributions receivable, net (Notes 3 and 11)	159,149	217,000
Grants receivable (Note 3)	114,500	18,500
Other receivables	352	1,658
Inventory	163,715	186,705
Prepaid expenses and deposits	47,018	44,033
Investment in marketable securities (Note 4)	12,541,930	12,179,271
Restricted cash (Note 11)	445,492	2,033,311
Contributions receivable - capital expenditure and collection items (Notes 3 and 11)	167,834	367,334
Other assets - art installation (Note 12)	5,589	2,629,537
Property and equipment, net (Notes 5 and 6)	866,828	751,443
 Total assets	 <u>\$ 15,924,767</u>	 <u>\$ 19,473,762</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 120,786	\$ 552,717
Accrued expenses	83,926	66,144
Debt (Note 6)	47,492	53,759
 Total liabilities	 <u>252,204</u>	 <u>672,620</u>
Net assets:		
Unrestricted net assets (Note 7)	2,042,915	4,054,107
Temporarily restricted net assets (Note 8)	642,226	1,759,613
Permanently restricted net assets (Note 9)	12,987,422	12,987,422
 Total net assets	 <u>15,672,563</u>	 <u>18,801,142</u>
 Total liabilities and net assets	 <u>\$ 15,924,767</u>	 <u>\$ 19,473,762</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:								
Contributions (Note 11)	\$ 680,168	\$ 154,295	\$ -	\$ 834,463	\$ 1,245,122	\$ 224,223	\$ -	\$ 1,469,345
Grants	294,000	213,524	-	507,524	244,250	194,500	-	438,750
Memberships	110,560	-	-	110,560	110,207	-	-	110,207
Museum store sales	139,414	-	-	139,414	156,063	-	-	156,063
Admissions	297,033	-	-	297,033	208,755	-	-	208,755
Other revenue	83,738	-	-	83,738	29,058	-	-	29,058
Net assets released from restrictions for operating expenses (Note 8)	1,414,431	(1,414,431)	-	-	776,605	(776,605)	-	-
Total operating revenue and support	<u>3,019,344</u>	<u>(1,046,612)</u>	<u>-</u>	<u>1,972,732</u>	<u>2,770,060</u>	<u>(357,882)</u>	<u>-</u>	<u>2,412,178</u>
Operating expenses:								
Program services	1,657,085	-	-	1,657,085	1,327,411	-	-	1,327,411
Supporting services:								
Administrative	593,840	-	-	593,840	1,350,899	-	-	1,350,899
Fundraising	441,510	-	-	441,510	509,383	-	-	509,383
Total operating expenses before depreciation and amortization	<u>2,692,435</u>	<u>-</u>	<u>-</u>	<u>2,692,435</u>	<u>3,187,693</u>	<u>-</u>	<u>-</u>	<u>3,187,693</u>
Operating deficit before depreciation and amortization	326,909	(1,046,612)	-	(719,703)	(417,633)	(357,882)	-	(775,515)
Depreciation and amortization	46,221	-	-	46,221	43,702	-	-	43,702
Deficit of operating revenue and support over operating expenses	280,688	(1,046,612)	-	(765,924)	(461,335)	(357,882)	-	(819,217)
Nonoperating revenue, support and expenses:								
Contributions designated for capital expenditure and collection items (Note 11)	-	1,420,408	-	1,420,408	-	433,340	-	433,340
Dividends and interest	5,878	383,668	-	389,546	2,819	504,210	-	507,029
Realized and unrealized gain (loss) on investments	201,680	415,199	-	616,879	(200,155)	(429,724)	-	(629,879)
Investment management fees	(54,070)	-	-	(54,070)	(46,480)	-	-	(46,480)
Completion of construction of collection items - art installation (Note 12)	(4,735,418)	-	-	(4,735,418)	-	-	-	-
Net assets released from restrictions for acquisition of collection items (Note 8)	2,235,980	(2,235,980)	-	-	2,602,272	(2,602,272)	-	-
Net assets released from restrictions for management fees (Note 8)	54,070	(54,070)	-	-	-	-	-	-
Change in net assets	<u>(2,011,192)</u>	<u>(1,117,387)</u>	<u>-</u>	<u>(3,128,579)</u>	<u>1,897,121</u>	<u>(2,452,328)</u>	<u>-</u>	<u>(555,207)</u>
Net assets at beginning of year	<u>4,054,107</u>	<u>1,759,613</u>	<u>12,987,422</u>	<u>18,801,142</u>	<u>2,156,986</u>	<u>4,211,941</u>	<u>12,987,422</u>	<u>19,356,349</u>
Net assets at end of year	<u>\$ 2,042,915</u>	<u>\$ 642,226</u>	<u>\$ 12,987,422</u>	<u>\$ 15,672,563</u>	<u>\$ 4,054,107</u>	<u>\$ 1,759,613</u>	<u>\$ 12,987,422</u>	<u>\$ 18,801,142</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (3,128,579)	\$ (555,207)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	46,221	43,702
Contributions restricted for capital expenditure and collection items	(1,420,408)	(433,340)
Completion of construction of collection items - art installation	4,735,418	-
Gain on sale of property and equipment	-	(1,800)
Realized and unrealized (gain) loss on investments	(616,879)	629,879
Changes in:		
Receivables	(36,844)	201,009
Inventory	22,990	8,102
Prepaid expenses and deposits	(2,985)	17,058
Accounts payable	(431,931)	22,255
Accrued expenses	17,782	(3,426)
Net cash used by operating activities	(815,215)	(71,768)
Cash flows from investing activities:		
Purchase of property and equipment	(161,605)	(14,676)
Proceeds from sale of property and equipment	-	1,800
Purchases for collection items - art installation	(2,111,470)	(1,602,264)
Change in restricted cash	1,587,819	(604,710)
Purchase of marketable securities	(4,023,358)	(2,090,860)
Proceeds from sale of marketable securities	4,277,578	2,111,606
Net cash used by investing activities	(431,036)	(2,199,104)
Cash flows from financing activities:		
Proceeds from contributions restricted for capital expenditure and collection items	1,619,908	2,474,006
Principal payments on debt	(6,267)	(5,824)
Net cash provided by financing activities	1,613,641	2,468,182
Net increase in cash and cash equivalents	367,390	197,310
Cash and cash equivalents at beginning of year	1,044,970	847,660
Cash and cash equivalents at end of year	\$ 1,412,360	\$ 1,044,970
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,513	\$ 4,002
Noncash investing and financing activities - purchases of art installation through trade accounts payable	\$ -	\$ 500,008

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 a selection of work by a limited number of distinguished artists, with each work installed permanently and according to the artists' specifications.

With initial funding from New York's Dia Center for the Arts (Dia), the Museum was first established as the Art Museum of the Pecos in the early 1980s. The Museum became independent of Dia in 1986 through the establishment of its own independent governing Board of Trustees (the Board) and professional staff.

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).

Basis of Presentation

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.

Temporarily Restricted Net Assets - Temporarily restricted net assets carry donor-imposed restrictions on the expenditure of the contributed assets. Temporarily restricted net assets may expire with the passage of time, as a result of actions taken by the Museum that fulfill donors' restrictions, or as a result of expenditures that have been charged to temporarily restrict net 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 net assets occur even if the temporarily restricted contributions are received and spent within the same year.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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.

Support and revenue are reported as an increase in unrestricted net assets unless use of the related asset 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.

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, investments with original maturities of less than three months when purchased and money market funds are considered to be cash equivalents.

Cash and cash equivalents held in the Museum's permanent endowment are classified as restricted cash, along with amounts that have been received but not spent on the Robert Irwin art installation. At December 31, 2016 and 2015, restricted cash was \$445,492 and \$2,033,311, respectively.

Investments

Investments are carried at fair value as discussed in Note 4. Purchases and sales of investments are recorded 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 diversification of the portfolio.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Significant Accounting Policies (Continued)

Receivables

Contributions 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 a 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. At December 31, 2016 and 2015, there was no allowance for doubtful accounts.

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 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 GAAP, the value of the Museum's collection, acquired through purchase and contributions, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets on the statement of activities and changes in net assets in the year in which the items are acquired and placed in service. If the assets used to purchase the collection items are restricted by donors, such amount is released from temporarily restricted net assets at time of acquisition.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 - Significant Accounting Policies (Continued)

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.

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. Contributions 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, 2016 and 2015, the Museum received approximately \$35,000 and \$68,500 in contributed legal services, respectively.

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

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 or disclosure in the financial statements. The Museum's evaluation was performed for tax periods 2013 through 2016. 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 2013.

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 do not include contributions designated for long term investment, capital expenditures, permanent collection 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.

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.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

Effective January 1, 2017, the Museum established a voluntary 403(b) Thrift Plan offered to all full-time employees. Employer matching contributions are discretionary.

On July 21, 2017, the Museum entered into a note payable agreement with a bank in the amount of \$115,000, bearing interest at a minimum of 5.75% subject to the current index, for the purposes of purchasing property. The note payable is due July 21, 2027.

The Museum has evaluated subsequent events through January 10, 2018, the date the financial statements were available to be issued.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Contributions and Grants Receivable

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

	<u>2016</u>	<u>2015</u>
Amounts to be collected within one year	\$ 403,983	\$ 494,334
Amounts to be collected one to five years	<u>37,500</u>	<u>108,500</u>
Total contributions and grants receivable	<u>\$ 441,483</u>	<u>\$ 602,834</u>
Grants receivable	\$ 114,500	\$ 18,500
Contributions receivable	159,149	217,000
Contributions receivable - capital expenditure and collection items	<u>167,834</u>	<u>367,334</u>
Total	<u>\$ 441,483</u>	<u>\$ 602,834</u>

Note 4 - Fair Value Measurements

GAAP provides a framework for reporting all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured 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. GAAP establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access.
- Level 2 - 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 asset or liability.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is relevant and significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2016 from December 31, 2015.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 4 - Fair Value Measurements (Continued)

Mutual and exchange traded 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 following tables summarize the financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
U.S. Equity Index	\$ 2,061,154	-	-	\$ 2,061,154
U.S. Fixed Income	1,044,678	-	-	1,044,678
Balanced	658,703	-	-	658,703
Foreign Equity	540,965	-	-	540,965
Global Equity	<u>58,410</u>	<u>-</u>	<u>-</u>	<u>58,410</u>
Total mutual funds	<u>4,363,910</u>	<u>-</u>	<u>-</u>	<u>4,363,910</u>
Exchange Traded Funds:				
U.S. Equity	3,048,949	-	-	3,048,949
Foreign Equity	<u>1,258,586</u>	<u>-</u>	<u>-</u>	<u>1,258,586</u>
Total exchange traded funds	<u>4,307,535</u>	<u>-</u>	<u>-</u>	<u>4,307,535</u>
Equities:				
U.S.	648,021	-	-	648,021
Foreign	<u>443,932</u>	<u>-</u>	<u>-</u>	<u>443,932</u>
Total equities	<u>1,091,953</u>	<u>-</u>	<u>-</u>	<u>1,091,953</u>
Fixed Income:				
U.S. Corporate	1,898,105	-	-	1,898,105
U.S. Government	500,286	-	-	500,286
Foreign	<u>380,141</u>	<u>-</u>	<u>-</u>	<u>380,141</u>
Total fixed income	<u>2,778,532</u>	<u>-</u>	<u>-</u>	<u>2,778,532</u>
Total investments	<u>\$ 12,541,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,541,930</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 4 - Fair Value Measurements (Continued)

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
U.S. Equity Index	\$ 3,533,530	\$ -	\$ -	\$ 3,533,530
U.S. Fixed Income	953,867	-	-	953,867
Balanced	374,345	-	-	374,345
Foreign Equity	628,556	-	-	628,556
Global Equity	<u>52,940</u>	<u>-</u>	<u>-</u>	<u>52,940</u>
Total mutual funds	<u>5,543,238</u>	<u>-</u>	<u>-</u>	<u>5,543,238</u>
Exchange Traded Funds:				
U.S. Equity	1,667,657	-	-	1,667,657
Foreign Equity	<u>1,119,762</u>	<u>-</u>	<u>-</u>	<u>1,119,762</u>
Total exchange traded funds	<u>2,787,419</u>	<u>-</u>	<u>-</u>	<u>2,787,419</u>
Equities:				
U.S.	477,150	-	-	477,150
Foreign	<u>439,347</u>	<u>-</u>	<u>-</u>	<u>439,347</u>
Total equities	<u>916,497</u>	<u>-</u>	<u>-</u>	<u>916,497</u>
Fixed Income:				
U.S. Corporate	2,073,715	-	-	2,073,715
U.S. Government	523,228	-	-	523,228
Foreign	<u>335,174</u>	<u>-</u>	<u>-</u>	<u>335,174</u>
Total fixed income	<u>2,932,117</u>	<u>-</u>	<u>-</u>	<u>2,932,117</u>
Total investments	<u>\$ 12,179,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,179,271</u>

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 236,487	\$ 236,487
Buildings and improvements	1,098,981	953,210
Furniture, fixtures, and equipment	344,451	330,372
Automobiles	<u>39,417</u>	<u>37,661</u>
Property and equipment	1,719,336	1,557,730
Less: accumulated depreciation	<u>(852,508)</u>	<u>(806,287)</u>
Property and equipment, net	<u>\$ 866,828</u>	<u>\$ 751,443</u>

Depreciation expense was \$46,221 and \$43,702 for the years ended December 31, 2016 and 2015, respectively.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 6 - Debt

Debt consists of a note payable to a bank which is collateralized by property with a book value of approximately \$100,000. The note payable is due in monthly installments of \$819, including interest adjusted annually to prime plus 1%, with a floor of 7%. The note payable is due in full in November 2022. The amount due as of December 31, 2016 and 2015 was \$47,492 and \$53,759, respectively.

Future maturities on debt are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	\$ 6,754
2018	7,351
2019	8,001
2020	8,701
2021	9,477
Thereafter	<u>7,208</u>
Total	<u>\$ 47,492</u>

Note 7 - Board Designations

The Board of Trustees designated a total of \$527,146 to fund the following endeavors as of December 31, 2016:

John Chamberlain Building Restoration	\$ 250,000
Artillery Sheds Restoration	152,877
Robert Irwin Installation	<u>124,269</u>
Total	<u>\$ 527,146</u>

Note 8 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Master Plan	\$ 213,667	\$ 321,216
Robert Irwin Project - Art Installation	94,410	973,482
John Chamberlain Building Restoration	86,352	86,352
Purchase of Real Property	63,500	-
Education/Outreach	14,500	62,500
Artillery Sheds Assessment	-	6,110
Internship Program	-	5,000
General Operations	<u>169,797</u>	<u>304,953</u>
Total temporarily restricted net assets	<u>\$ 642,226</u>	<u>\$ 1,759,613</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 8 - Temporarily Restricted Net Assets (Continued)

During 2016 and 2015, 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>2016</u>	<u>2015</u>
Robert Irwin Project - Art Installation	\$ 2,235,980	\$ 2,602,272
Master Plan	257,549	6,566
Chinati Weekend	154,295	134,350
Education/Outreach	95,524	94,523
Investment Management Fees	54,070	-
Newsletter	11,000	26,000
Artillery Sheds Assessment	6,110	16,574
Internship Program	5,000	35,000
Artist-in-Residence	5,000	14,925
John Chamberlain Building Restoration	-	25,715
Temporary Exhibitions	-	11,000
General Operations	<u>879,953</u>	<u>411,952</u>
Total net assets released from restrictions	<u>\$ 3,704,481</u>	<u>\$ 3,378,877</u>

Note 9 - Permanently Restricted Net Assets

The Museum has a donor-restricted endowment fund to which donors have permanently restricted their contributions. As required by GAAP, the net assets of the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions or relevant law.

Interpretation of Relevant Law

The Board of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which has been adopted by the State of Texas, 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 UPMIFA.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 9 - Permanently Restricted Net Assets (Continued)

In accordance with UPMIFA, 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 Museum 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.

Endowment Net Asset Composition and Classification

The composition of donor-restricted endowment net assets as of December 31, 2016 and 2015 and the changes in the endowment funds for the years then ended are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ -	\$ 546,994	\$ 12,987,422	\$ 13,534,416
Investment income	-	504,210	-	504,210
Net depreciation of investments	(199,453)	(429,724)	-	(629,177)
Investment management fees	-	(46,480)	-	(46,480)
Amounts appropriated for expenditure	-	(575,000)	-	(575,000)
Endowment net assets, December 31, 2015	(199,453)	-	12,987,422	12,787,969
Investment income	-	383,668	-	383,668
Net appreciation of investments	199,453	415,199	-	614,652
Investment management fees	-	(54,070)	-	(54,070)
Amounts appropriated for expenditure	-	(575,000)	-	(575,000)
Endowment net assets, December 31, 2016	\$ -	\$ 169,797	\$ 12,987,422	\$ 13,157,219

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 9 - 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>2016</u>	<u>2015</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 UPMIFA.	\$ <u>12,987,422</u>	\$ <u>12,987,422</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA without purpose restrictions.	\$ _____ -	\$ _____ -

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 UPMIFA requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets to the extent that temporarily restricted resources associated with these funds have been reduced to zero. The fair value of the endowment assets was below historic dollar value at December 31, 2015 by an aggregate amount of \$199,453. There were no funds with deficiencies at December 31, 2016.

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). 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, 2016 AND 2015

Note 9 - 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 a maximum of 5% of the endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this spending policy, the Museum considered its long-term expected return on the endowment. Accordingly, over the long-term, the Museum expects the spending policy to allow its endowment to grow at an average of 4% 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 10 - Operating Lease Commitments

The Museum has operating leases for office equipment. Rent expense for the years ended December 31, 2016 and 2015 totaled \$15,583 and \$12,605, respectively.

Future minimum operating lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	\$ 9,813
2018	8,202
2019	7,665
2020	7,665
2021	<u>2,555</u>
Total	<u>\$ 35,900</u>

Note 11 - Concentrations

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At December 31, 2016 and 2015, the Museum had deposits in financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation of \$1,362,963 and \$2,923,930, respectively. The Museum has not experienced any losses in such accounts and management believes the Museum is not exposed to any significant credit risk for cash and cash equivalents.

For the years ended December 31, 2016 and 2015, 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, 2016 and 2015, contributions totaling \$662,225 and \$814,757, respectively, were made to the Museum by members of the Board for operating and capital campaign support. At December 31, 2016 and 2015, the Museum had receivable balances from Board members' of \$270,783 and \$490,334, respectively.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 12 - Other Assets

During 2016, the Museum completed construction and installation of Robert Irwin's *untitled (dawn to dusk)*. This was a multi-year construction project, and prior to inauguration, construction costs were accumulated in Other Assets on the statement of financial position. Upon inauguration, the Museum added the installation to its permanent collection and in accordance with the Museum's accounting policies (see Note 2), the permanent collection is not recorded on the statement of financial position, resulting in a significant decrease in Other Assets during 2016.

*** * * End of Notes * * ***

SUPPLEMENTARY INFORMATION

THE CHINATI FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 11,137	\$ 295	\$ -	\$ 11,432
Art restoration	49,780	-	-	49,780
Automobile	9,599	572	-	10,171
Contract services	453	1,871	-	2,324
Credit card processing fees	-	22,425	-	22,425
Depreciation	36,977	9,244	-	46,221
Development	-	-	133,624	133,624
Educational programs	78,865	-	-	78,865
Employee benefits	86,384	23,922	22,592	132,898
Events	101,807	-	-	101,807
Exhibits	3,713	-	-	3,713
Insurance	58,737	4,814	3,671	67,222
Interest	3,513	-	-	3,513
Maintenance	9,025	1,387	-	10,412
Master Plan	227,680	29,869	-	257,549
Merchandise cost	-	58,727	-	58,727
Miscellaneous	3,850	8,354	1,548	13,752
Office expense	11,984	14,317	5,360	31,661
Postage	-	8,133	-	8,133
Printing	2,821	96	806	3,723
Professional fees	4,865	140,217	4,865	149,947
Publications	52,348	-	-	52,348
Salaries, Taxes and Benefits	901,245	269,174	252,830	1,423,249
Telephone	7,480	789	1,603	9,872
Travel and entertainment	2,018	42,710	14,611	59,339
Utilities	29,781	20,238	-	50,019
	<u>\$ 1,694,062</u>	<u>\$ 657,154</u>	<u>\$ 441,510</u>	<u>\$ 2,792,726</u>

See independent auditor's report and accompanying notes to financial statements.

THE CHINATI FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 8,812	\$ 979	\$ -	\$ 9,791
Art restoration	50,707	-	-	50,707
Automobiles	9,467	1,052	-	10,519
Bad debts	-	728,600	-	728,600
Credit card processing fees	-	17,745	-	17,745
Contract services	-	48,116	-	48,116
Depreciation	34,962	8,740	-	43,702
Development	-	-	114,411	114,411
Educational programs	66,656	-	-	66,656
Employee benefits	67,280	23,243	31,805	122,328
Events	74,420	-	-	74,420
Exhibits	13,215	-	-	13,215
Insurance	57,594	10,799	3,600	71,993
Interest	4,002	-	-	4,002
Maintenance	17,489	4,373	-	21,862
Merchandise cost	-	54,262	-	54,262
Miscellaneous	11,079	10,923	-	22,002
Office expense	13,797	19,644	5,313	38,754
Postage	-	4,332	12,175	16,507
Printing	2,949	421	842	4,212
Professional fees	-	171,616	-	171,616
Publications	45,192	-	-	45,192
Salaries	801,730	224,596	312,421	1,338,747
Telephone	6,304	1,351	1,351	9,006
Travel and entertainment	19,657	68,987	27,465	116,109
Utilities	57,061	6,340	-	63,401
	<u>\$ 1,362,373</u>	<u>\$ 1,406,119</u>	<u>\$ 509,383</u>	<u>\$ 3,277,875</u>

See independent auditor's report and accompanying notes to financial statements.