

THE CHINATI FOUNDATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016
(With Independent Auditor's Report Thereon)

Insight. Oversight. Foresight.SM

 **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, 2017 and 2016, 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, 2017 and 2016, 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 22 and 23 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
November 5, 2018

THE CHINATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (Note 11)	\$ 1,948,544	\$ 1,412,360
Contributions receivable (Notes 3 and 11)	123,435	159,149
Grants receivable (Note 3)	37,500	114,500
Other receivables	7,690	352
Inventory	152,260	163,715
Prepaid expenses and deposits	37,688	52,607
Investments (Note 4)	13,630,728	12,541,930
Restricted cash (Note 2)	-	445,492
Contributions receivable - capital expenditure and collection items (Notes 3 and 11)	134,500	167,834
Property and equipment, net (Notes 5 and 6)	1,003,288	866,828
Collections (Note 12)	-	-
 Total assets	 <u>\$ 17,075,633</u>	 <u>\$ 15,924,767</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 75,165	\$ 120,786
Accrued expenses	126,177	83,926
Debt (Note 6)	152,204	47,492
 Total liabilities	 <u>353,546</u>	 <u>252,204</u>
Net assets:		
Unrestricted net assets (Notes 7 and 9)	2,010,290	2,042,915
Temporarily restricted net assets (Note 8)	1,474,375	642,226
Permanently restricted net assets (Note 9)	13,237,422	12,987,422
 Total net assets	 <u>16,722,087</u>	 <u>15,672,563</u>
 Total liabilities and net assets	 <u>\$ 17,075,633</u>	 <u>\$ 15,924,767</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue and support:								
Contributions (Note 11)	\$ 665,973	\$ 323,413	\$ -	\$ 989,386	\$ 680,168	\$ 154,295	\$ -	\$ 834,463
Grants	337,200	211,150	-	548,350	294,000	213,524	-	507,524
Memberships	114,872	-	-	114,872	110,560	-	-	110,560
Museum store sales	117,249	-	-	117,249	139,414	-	-	139,414
Admissions	370,443	-	-	370,443	297,033	-	-	297,033
Other revenue	110,739	-	-	110,739	83,738	-	-	83,738
Net assets released from restrictions for operating expenses (Note 8)	1,153,729	(1,153,729)	-	-	1,414,431	(1,414,431)	-	-
Total operating revenue and support	<u>2,870,205</u>	<u>(619,166)</u>	<u>-</u>	<u>2,251,039</u>	<u>3,019,344</u>	<u>(1,046,612)</u>	<u>-</u>	<u>1,972,732</u>
Operating expenses:								
Program services	1,951,338	-	-	1,951,338	1,657,085	-	-	1,657,085
Supporting services:								
Administrative	550,612	-	-	550,612	593,840	-	-	593,840
Fundraising	533,320	-	-	533,320	441,510	-	-	441,510
Total operating expenses before depreciation and amortization	<u>3,035,270</u>	<u>-</u>	<u>-</u>	<u>3,035,270</u>	<u>2,692,435</u>	<u>-</u>	<u>-</u>	<u>2,692,435</u>
Operating deficit before depreciation and amortization	(165,065)	(619,166)	-	(784,231)	326,909	(1,046,612)	-	(719,703)
Depreciation and amortization	58,135	-	-	58,135	46,221	-	-	46,221
Deficit of operating revenue and support over operating expenses	(223,200)	(619,166)	-	(842,366)	280,688	(1,046,612)	-	(765,924)
Nonoperating revenue, support and expenses:								
Contributions designated for capital expenditure and collection items (Note 11)	-	2,500	-	2,500	-	1,420,408	-	1,420,408
Permanently restricted contributions	-	-	250,000	250,000	-	-	-	-
Dividends and interest	7,679	454,176	-	461,855	5,878	383,668	-	389,546
Realized and unrealized gain (loss) on investments	-	1,240,741	-	1,240,741	201,680	415,199	-	616,879
Investment management fees	(63,206)	-	-	(63,206)	(54,070)	-	-	(54,070)
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)	182,896	(182,896)	-	-	2,235,980	(2,235,980)	-	-
Net assets released from restrictions for management fees (Note 8)	63,206	(63,206)	-	-	54,070	(54,070)	-	-
Change in net assets	<u>(32,625)</u>	<u>832,149</u>	<u>250,000</u>	<u>1,049,524</u>	<u>(2,011,192)</u>	<u>(1,117,387)</u>	<u>-</u>	<u>(3,128,579)</u>
Net assets at beginning 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>
Net assets at end of year	<u>\$ 2,010,290</u>	<u>\$ 1,474,375</u>	<u>\$ 13,237,422</u>	<u>\$ 16,722,087</u>	<u>\$ 2,042,915</u>	<u>\$ 642,226</u>	<u>\$ 12,987,422</u>	<u>\$ 15,672,563</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,049,524	\$ (3,128,579)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	58,135	46,221
Contributions restricted for capital expenditure and collection items	(2,500)	(1,420,408)
Completion of construction of collection items - art installation	-	4,735,418
Realized and unrealized gain on investments	(1,240,741)	(616,879)
Changes in:		
Receivables	105,376	(36,844)
Inventory	11,455	22,990
Prepaid expenses and deposits	14,919	(2,985)
Accounts payable	(45,621)	(431,931)
Accrued expenses	42,251	17,782
Net cash used by operating activities	(7,202)	(815,215)
Cash flows from investing activities:		
Purchase of property and equipment	(194,595)	(161,605)
Purchases of collection items - art installation	-	(2,111,470)
Net change in restricted cash	445,492	1,587,819
Purchase of investments	(1,665,604)	(4,023,358)
Sales of investments	1,817,547	4,277,578
Net cash provided (used) by investing activities	402,840	(431,036)
Cash flows from financing activities:		
Proceeds from contributions restricted for capital expenditure and collection items	35,834	1,619,908
Proceeds from debt	115,000	-
Principal payments on debt	(10,288)	(6,267)
Net cash provided by financing activities	140,546	1,613,641
Net increase in cash and cash equivalents	536,184	367,390
Cash and cash equivalents at beginning of year	1,412,360	1,044,970
Cash and cash equivalents at end of year	\$ 1,948,544	\$ 1,412,360
Supplemental disclosures of cash flow information -		
Cash paid for interest	\$ 5,892	\$ 3,513

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 1 - Organization

The Chinati Foundation (the Museum) is a not-for-profit museum for contemporary and modern art, created and founded by the late artist Donald Judd. The Museum's 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. The emphasis is on works in which art and the surrounding landscape are inextricably linked. The majority of the collection is on permanent display in 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 addition to maintaining and preserving the collections, 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

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).

Net Asset Classification

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 Trustees (the Board). The Board has designated certain unrestricted net assets as funds functioning as an endowment. As such, the principal of these funds is invested and only the income is made available for use by the Museum.

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 restricted 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.

Permanently Restricted Net Assets - Permanently restricted net assets are subject to irrevocable donor restrictions requiring the assets to be maintained in perpetuity for the purpose of generating investment income to fund operations or maintain art installations.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 2 - Significant Accounting Policies (Continued)

Net Asset Classification (Continued)

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.

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.

Restricted Cash

Restricted cash represents the amount of cash, that when combined with investments, will satisfy the corpus requirements of permanently restricted net assets and Board designated endowment funds. At December 31, 2017 and 2016, restricted cash was \$-0- and \$445,492, 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.

Receivables

Contributions and grants receivable are recorded as revenue in the year awarded, unless they contain conditions. 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, 2017 and 2016, there was no allowance for doubtful accounts.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 2 - Significant Accounting Policies (Continued)

Inventory

Inventory consists of merchandise held for sale and items that are distributed to Museum members or significant contributors. During 2017, the Museum adopted ASU 2015-11, *Inventory (Topic 360), Simplifying the Measurement of Inventory*. The adoption of this ASU did not have a material impact on the financial statements. Merchandise inventory has been recorded at the lower of average cost or net realizable value.

Collections

The collections, which since the Museum's inception have either been donated or constructed with Museum funds, 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.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at date of acquisition, 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. 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.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 2 - Significant Accounting Policies (Continued)

Contributions

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 that are restricted by the donor for future periods or a specific purpose are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Donated Materials and Services

Donated items are reflected as contributions at their estimated fair value at date of donation. Donated 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, 2017 and 2016, the Museum received approximately \$3,600 and \$35,000 in contributed legal services, respectively.

Memberships and Admissions Revenue

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.

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 2014 through 2017. 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 2014.

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.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Note 2 - Significant Accounting Policies (Continued)

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.

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.

Subsequent Events

The Museum has evaluated subsequent events through November 5, 2018, 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>2017</u>	<u>2016</u>
Amounts to be collected within one year	\$ 200,435	\$ 403,983
Amounts to be collected one to five years	<u>95,000</u>	<u>37,500</u>
Total contributions and grants receivable	<u>\$ 295,435</u>	<u>\$ 441,483</u>
Grants receivable	\$ 37,500	\$ 114,500
Contributions receivable	123,435	159,149
Contributions receivable - capital expenditure and collection items	<u>134,500</u>	<u>167,834</u>
Total contributions and grants receivable	<u>\$ 295,435</u>	<u>\$ 441,483</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 from December 31, 2016.

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 CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 4 - Fair Value Measurements (Continued)

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, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
U.S. Equity	\$ 2,552,271	\$ -	\$ -	\$ 2,552,271
U.S. Fixed Income	1,104,686	-	-	1,104,686
Balanced	417,170	-	-	417,170
Foreign Equity	701,911	-	-	701,911
Global Equity	<u>67,276</u>	<u>-</u>	<u>-</u>	<u>67,276</u>
Total mutual funds	<u>4,843,314</u>	<u>-</u>	<u>-</u>	<u>4,843,314</u>
Exchange Traded Funds:				
U.S. Equity	3,474,517	-	-	3,474,517
Foreign Equity	<u>1,518,894</u>	<u>-</u>	<u>-</u>	<u>1,518,894</u>
Total exchange traded funds	<u>4,993,411</u>	<u>-</u>	<u>-</u>	<u>4,993,411</u>
Equities:				
U.S.	-	-	-	-
Foreign	<u>755,991</u>	<u>-</u>	<u>-</u>	<u>755,991</u>
Total equities	<u>755,991</u>	<u>-</u>	<u>-</u>	<u>755,991</u>
Fixed Income:				
U.S. Corporate	1,964,166	-	-	1,964,166
U.S. Government	924,079	-	-	924,079
Foreign	<u>149,767</u>	<u>-</u>	<u>-</u>	<u>149,767</u>
Total fixed income	<u>3,038,012</u>	<u>-</u>	<u>-</u>	<u>3,038,012</u>
Total investments	<u>\$ 13,630,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,630,728</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 4 - Fair Value Measurements (Continued)

<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	\$ 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, 2017 AND 2016

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 236,487	\$ 236,487
Buildings and improvements	1,282,435	1,098,981
Furniture, fixtures, and equipment	355,592	344,451
Automobiles	<u>39,417</u>	<u>39,417</u>
Property and equipment	1,913,931	1,719,336
Less: accumulated depreciation	<u>(910,643)</u>	<u>(852,508)</u>
Property and equipment, net	<u>\$ 1,003,288</u>	<u>\$ 866,828</u>

Depreciation expense was \$58,135 and \$46,221 for the years ended December 31, 2017 and 2016, respectively.

Note 6 - Debt

Debt consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Note payable to a bank, collateralized by property with a book value of approximately \$100,000; due in monthly installments of \$819, including interest adjusted annually to prime plus 1%, with a floor of 7%; due in full in November 2022.	\$ 40,777	\$ 47,492
Note payable to a bank, collateralized by property with a book value of approximately \$175,000; due in monthly installments of \$1,263, including interest at a minimum of 5.75% subject to the current index; due in full July 2027.	<u>111,427</u>	<u>-</u>
	<u>\$ 152,204</u>	<u>\$ 47,492</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 6 - Debt (Continued)

Future maturities on debt are as follows as of December 31:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 16,157
2019	17,211
2020	18,320
2021	19,533
2022	20,062
Thereafter	<u>60,921</u>
Total	<u>\$ 152,204</u>

Note 7 - Board Designations

Included within unrestricted net assets are the following Board designated funds as of December 31:

	<u>2017</u>	<u>2016</u>
John Chamberlain Building Restoration	\$ 232,267	\$ 250,000
Artillery Sheds Restoration	86,030	152,877
Robert Irwin Maintenance (endowed in 2017 - see Note 9)	<u>250,000</u>	<u>124,269</u>
Total board designations	<u>\$ 568,297</u>	<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>2017</u>	<u>2016</u>
Master Plan Implementation	\$ 100,000	\$ -
Robert Irwin Publication	63,868	94,410
Education/Outreach Programs	34,000	14,500
Master Plan Study	-	213,667
John Chamberlain Building Restoration	-	86,352
Purchase of Real Property	-	63,500
Timing Restrictions	50,000	-
General Operations (Endowment Earnings)	<u>1,226,507</u>	<u>169,797</u>
Total temporarily restricted net assets	<u>\$ 1,474,375</u>	<u>\$ 642,226</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 8 - Temporarily Restricted Net Assets (Continued)

During 2017 and 2016, 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>2017</u>	<u>2016</u>
Chinati Weekend	\$ 235,312	\$ 154,295
Master Plan Study	217,667	257,549
John Chamberlain Building Restoration	86,352	-
Purchase of Real Property	66,000	-
Investment Management Fees	63,206	54,070
Temporary Exhibitions	59,500	-
Robert Irwin Art Installation	30,544	2,235,980
Education/Outreach Programs	36,250	95,524
Robert Irwin Art Installation Operating Costs	10,000	-
Newsletter	10,000	11,000
Internship Program	5,000	5,000
Artist-in-Residence	5,000	5,000
Artillery Sheds Assessment	-	6,110
General Operations	<u>575,000</u>	<u>879,953</u>
Total net assets released from restrictions	<u>\$ 1,399,831</u>	<u>\$ 3,704,481</u>

Note 9 - Endowment Funds

The Museum's endowment funds consist of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment fund, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions or relevant law.

Interpretation of Relevant Law

The Board of Trustees 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, 2017 AND 2016

Note 9 - Endowment Funds (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 the endowment funds by net asset class and by type is as follows at December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 1,226,508	\$ 13,237,422	\$ 14,463,930
Board-designated endowment fund	250,000	-	-	250,000
Total endowment funds	\$ 250,000	\$ 1,226,508	\$ 13,237,422	\$ 14,713,930

The composition of the endowment funds by net asset class and by type is as follows at December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 169,797	\$ 12,987,422	\$ 13,157,219
Board-designated endowment fund	-	-	-	-
Total endowment funds	\$ -	\$ 169,797	\$ 12,987,422	\$ 13,157,219

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 9 - Endowment Funds (Continued)

The changes in the endowment funds for the years ended December 31, 2017 and 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	\$ (199,453)	\$ -	\$ 12,987,422	\$ 12,787,969
Fiscal year 2016 activity:				
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
Fiscal year 2017 activity:				
Donor contributions	-	-	250,000	250,000
Transfer for Board-designated endowment	250,000	-	-	250,000
Investment income	-	454,176	-	454,176
Net appreciation of investments	-	1,240,741	-	1,240,741
Investment management fees	-	(63,206)	-	(63,206)
Amounts appropriated for expenditure	-	(575,000)	-	(575,000)
Endowment net assets, December 31, 2017	\$ 250,000	\$ 1,226,508	\$ 13,237,422	\$ 14,713,930

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) and Board-designated endowment 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.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 9 - Endowment Funds (Continued)

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.

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 preceding 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 - Commitments

Operating Leases

The Museum has operating leases for office equipment. Rent expense for the years ended December 31, 2017 and 2016 was \$15,190 and \$15,583, respectively.

Future minimum operating lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2018	\$ 9,785
2019	9,701
2020	9,701
2021	4,591
2022	2,036
Thereafter	<u>1,527</u>
Total	<u>\$ 37,341</u>

Defined Contribution Plan

Effective January 1, 2017, the Museum established a voluntary 403(b) Thrift Plan (the Plan) for all full-time employees. Employer matching contributions into the Plan are discretionary. During the year ended December 31, 2017, no employer matching contributions were made into the Plan by the Museum.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Note 11 - Concentrations

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At December 31, 2017 and 2016, the Museum had deposits in financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation of \$1,475,230 and \$1,362,963, 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, 2017 and 2016, contributions totaling approximately \$455,000 and \$662,000, respectively, were made to the Museum by members of the Board for operating support and art installations. At December 31, 2017 and 2016, the Museum had receivable balances from Board members of \$152,935 and \$270,783, respectively.

Note 12 - Collections

As discussed in Note 2, the Museum's collections are not recorded on the statement of financial position and are reflected on the statement of activities and changes in net assets as decreases in the year in which the collections are placed in service. During 2016, the Museum completed construction of Robert Irwin's *untitled (dawn to dusk)*, which was a multi-year project. During the construction period, the costs were accumulated on the statement of financial position. Upon inauguration of Robert Irwin's *untitled (dawn to dusk)* in 2016, the installation was added to the Museum's collection. In accordance with the Museum's accounting policies, this collection is not recorded on the statement of financial position and the December 31, 2016 statement of activities and changes in net assets reflects the release of the costs associated with the construction of the Robert Irwin's *untitled (dawn to dusk)*.

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

SUPPLEMENTARY INFORMATION

THE CHINATI FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 13,057	\$ 1,451	\$ -	\$ 14,508
Art restoration	191,622	-	-	191,622
Automobile	13,778	1,531	-	15,309
Contract services	2,118	5,608	-	7,726
Credit card processing fees	-	37,944	-	37,944
Depreciation	46,508	11,627	-	58,135
Development	-	-	145,147	145,147
Educational programs	64,829	-	-	64,829
Employee benefits	101,244	27,739	30,664	159,647
Events	124,608	-	-	124,608
Exhibits	35,509	-	-	35,509
Insurance	64,078	10,969	3,657	78,704
Interest	5,892	-	-	5,892
Maintenance	9,560	2,461	-	12,021
Master Plan	183,971	-	-	183,971
Merchandise cost	-	48,306	-	48,306
Miscellaneous	7,383	15,377	121	22,881
Office expense	11,938	15,923	4,202	32,063
Postage	-	3,128	7,312	10,440
Printing	2,756	394	787	3,937
Professional fees	6,379	118,959	6,379	131,717
Publications	80,774	-	-	80,774
Salaries, taxes and benefits	987,596	268,206	313,385	1,569,187
Telephone	7,707	1,652	1,652	11,011
Travel and entertainment	-	50,188	20,014	70,202
Utilities	36,539	3,982	-	40,521
	<u>\$ 1,997,846</u>	<u>\$ 625,445</u>	<u>\$ 533,320</u>	<u>\$ 3,156,611</u>

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

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.