



THE CHINATI FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Auditor's Report Thereon)

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, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Houston, Texas
October 10, 2019

THE CHINATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents (Note 11)	\$ 1,699,400	\$ 1,354,116
Contributions receivable (Notes 3 and 11)	69,500	123,435
Grants receivable (Note 3)	-	37,500
Other receivables	8,957	7,690
Inventory	138,982	152,260
Prepaid expenses and deposits	47,488	37,688
Endowment investments (Note 4)	13,354,558	14,225,156
Contributions receivable - collection items	20,000	134,500
Property and equipment, net (Notes 5 and 6)	999,673	1,003,288
Collections (Note 12)	-	-
Total assets	<u>\$ 16,338,558</u>	<u>\$ 17,075,633</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 41,563	\$ 75,165
Accrued expenses	126,399	126,177
Debt (Note 6)	136,024	152,204
Total liabilities	<u>303,986</u>	<u>353,546</u>
Net assets:		
Without donor restrictions:		
Undesignated	696,075	590,909
Board designated for specified purpose (Note 7)	449,047	318,297
Board designated endowments (Note 9)	250,000	250,000
Underwater Board designated endowments (Note 9)	(14,321)	-
Invested in property and equipment, net of related debt	863,649	851,084
Total without donor restrictions	<u>2,244,450</u>	<u>2,010,290</u>
With donor restrictions:		
Time restricted for future periods (Note 8)	25,000	1,276,507
Purpose restricted (Note 8)	623,312	197,868
Perpetual in nature (Note 9)	13,237,422	13,237,422
Underwater endowments (Note 9)	(95,612)	-
Total with donor restrictions	<u>13,790,122</u>	<u>14,711,797</u>
Total net assets	<u>16,034,572</u>	<u>16,722,087</u>
Total liabilities and net assets	<u>\$ 16,338,558</u>	<u>\$ 17,075,633</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support:						
Contributions and grants (Note 11)	\$ 1,302,813	\$ 968,544	\$ 2,271,357	\$ 1,003,173	\$ 534,563	\$ 1,537,736
Admissions	375,523	-	375,523	370,443	-	370,443
Memberships	189,300	-	189,300	114,872	-	114,872
Museum store sales, net of cost of goods sold	79,757	-	79,757	68,943	-	68,943
Other revenue	54,295	-	54,295	110,739	-	110,739
Net assets released from restrictions for operating expenses (Note 8)	1,204,156	(1,204,156)	-	1,153,729	(1,153,729)	-
Total operating revenue and support	3,205,844	(235,612)	2,970,232	2,821,899	(619,166)	2,202,733
Operating expenses:						
Program services:						
Conservation	381,260	-	381,260	356,657	-	356,657
Curatorial, events and scholarship	708,328	-	708,328	676,889	-	676,889
Education	213,374	-	213,374	234,069	-	234,069
Visitor services	476,829	-	476,829	489,201	-	489,201
Strategic initiatives	120,085	-	120,085	240,344	-	240,344
Total program services	1,899,876	-	1,899,876	1,997,160	-	1,997,160
Supporting services:						
Administrative	416,943	-	416,943	524,614	-	524,614
Fundraising	606,013	-	606,013	465,190	-	465,190
Total operating expenses before depreciation and amortization	2,922,832	-	2,922,832	2,986,964	-	2,986,964
Operating surplus (deficit) before depreciation and amortization	283,012	(235,612)	47,400	(165,065)	(619,166)	(784,231)
Depreciation and amortization	64,691	-	64,691	58,135	-	58,135
Deficit of operating revenue and support over operating expenses	218,321	(235,612)	(17,291)	(223,200)	(619,166)	(842,366)
Nonoperating revenue, support and expenses:						
Contributions designated for capital expenditure	-	-	-	-	2,500	2,500
Permanently restricted contributions	-	-	-	-	250,000	250,000
Dividends and interest	20,230	491,133	511,363	7,679	454,176	461,855
Realized and unrealized (loss) gain on investments	(19,000)	(1,101,376)	(1,120,376)	-	1,240,741	1,240,741
Investment management fees	(61,211)	-	(61,211)	(63,206)	-	(63,206)
Net assets released from restrictions for acquisition of collection items and capital expenditures (Note 8)	14,674	(14,674)	-	182,896	(182,896)	-
Net assets released from restrictions for management fees (Note 8)	61,146	(61,146)	-	63,206	(63,206)	-
Change in net assets	234,160	(921,675)	(687,515)	(32,625)	1,082,149	1,049,524
Net assets at beginning of year	2,010,290	14,711,797	16,722,087	2,042,915	13,629,648	15,672,563
Net assets at end of year	\$ 2,244,450	\$ 13,790,122	\$ 16,034,572	\$ 2,010,290	\$ 14,711,797	\$ 16,722,087

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	Program Services						Supporting Services		Grand Total
	Conservation	Curatorial, Events and Scholarship	Education	Visitor Services	Strategic Initiatives	Total	Administrative	Fundraising	
Advertising	\$ 350	\$ 9,126	\$ 1,710	\$ 9,580	\$ 1,214	\$ 21,980	\$ 4,231	\$ 1,287	\$ 27,498
Automobile	6,659	6,461	1,176	149	118	14,563	947	244	15,754
Catering	-	-	-	17,321	-	17,321	-	-	17,321
Contract services	23,910	105,407	5,109	3,921	9,666	148,013	1,436	13,736	163,185
Credit card processing fees	-	1,412	-	28,494	-	29,906	146	6,222	36,274
Depreciation	5,876	43,104	3,002	6,248	57	58,287	5,473	931	64,691
Insurance	27,441	26,772	3,968	15,010	232	73,423	6,217	1,672	81,312
Interest	-	9,247	-	-	-	9,247	-	-	9,247
Maintenance	8,237	7,986	984	186	114	17,507	914	164	18,585
Member benefit items	-	-	-	-	-	-	-	17,130	17,130
Merchandise cost	-	-	-	50,947	-	50,947	-	-	50,947
Miscellaneous	1,464	2,582	3,071	4,005	509	11,631	9,518	742	21,891
Office expense	4,505	7,188	2,830	13,822	876	29,221	10,620	27,596	67,437
Printing	80	33,990	1,296	1,620	5,156	42,142	70	5,889	48,101
Professional fees	7,808	9,135	3,349	4,575	48,571	73,438	55,509	91,030	219,977
Rent	-	11,788	3,208	2,784	-	17,780	970	4,490	23,240
Salaries, taxes and benefits	279,848	381,425	157,932	361,948	51,877	1,233,030	253,686	366,980	1,853,696
Supplies and materials	15,704	17,434	18,376	1,869	792	54,175	2,320	1,674	58,169
Telephone	2,980	1,883	2,048	2,695	676	10,282	5,410	2,695	18,387
Travel and entertainment	657	55,494	4,172	1,887	-	62,210	56,062	59,973	178,245
Utilities	1,617	20,998	4,145	6,963	284	34,007	8,887	4,489	47,383
Total expenses by function	387,136	751,432	216,376	534,024	120,142	2,009,110	422,416	606,944	3,038,470
Less gift shop cost of goods sold included with revenues on the statement of activities	-	-	-	(50,947)	-	(50,947)	-	-	(50,947)
Total expenses included in the expense section on the statement of activities	<u>\$ 387,136</u>	<u>\$ 751,432</u>	<u>\$ 216,376</u>	<u>\$ 483,077</u>	<u>\$ 120,142</u>	<u>\$ 1,958,163</u>	<u>\$ 422,416</u>	<u>\$ 606,944</u>	<u>\$ 2,987,523</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services		Grand Total
	Conservation	Curatorial, Events and Scholarship	Education	Visitor Services	Strategic Initiatives	Total	Administrative	Fundraising	
Advertising	\$ 1,422	\$ 4,930	\$ 4,112	\$ 8,530	\$ 2,881	\$ 21,875	\$ 2,003	\$ 860	\$ 24,738
Automobile	6,578	6,421	1,123	148	116	14,386	936	168	15,490
Catering	-	-	-	14,492	-	14,492	-	-	14,492
Contract services	6,773	59,867	14,694	897	33,360	115,591	1,040	155	116,786
Credit card processing fees	3	1,176	-	37,144	-	38,323	297	360	38,980
Depreciation	5,280	38,737	2,698	5,614	51	52,380	4,918	837	58,135
Insurance	26,332	25,673	3,909	14,788	229	70,931	6,125	1,648	78,704
Interest	-	5,891	-	-	-	5,891	-	-	5,891
Maintenance	5,193	4,938	832	124	98	11,185	789	141	12,115
Member benefit items	-	-	-	-	-	-	-	5,312	5,312
Merchandise cost	-	-	-	48,306	-	48,306	-	-	48,306
Miscellaneous	824	2,105	2,588	4,894	43	10,454	11,052	9,791	31,297
Office expense	4,569	6,669	5,386	8,167	1,157	25,948	7,352	14,561	47,861
Printing	-	38,742	1,312	1,312	12,460	53,826	-	4,599	58,425
Professional fees	89,142	90,190	2,944	3,926	58,339	244,541	113,527	56,798	414,866
Rent	-	7,930	3,364	4,344	273	15,911	984	3,364	20,259
Salaries, taxes and benefits	191,220	328,880	167,239	381,209	102,672	1,171,220	318,184	339,899	1,829,303
Supplies and materials	16,095	26,629	18,003	-	227	60,954	-	1,638	62,592
Telephone	1,671	2,062	1,169	1,534	385	6,821	3,082	1,535	11,438
Travel and entertainment	1,104	52,457	3,086	-	27,902	84,549	50,165	20,014	154,728
Utilities	5,731	12,329	4,308	7,692	202	30,262	9,078	4,347	43,687
Total expenses by function	361,937	715,626	236,767	543,121	240,395	2,097,846	529,532	466,027	3,093,405
Less gift shop cost of goods sold included with revenues on the statement of activities	-	-	-	(48,306)	-	(48,306)	-	-	(48,306)
Total expenses included in the expense section on the statement of activities	<u>\$ 361,937</u>	<u>\$ 715,626</u>	<u>\$ 236,767</u>	<u>\$ 494,815</u>	<u>\$ 240,395</u>	<u>\$ 2,049,540</u>	<u>\$ 529,532</u>	<u>\$ 466,027</u>	<u>\$ 3,045,099</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (687,515)	\$ 1,049,524
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	64,691	58,135
Contributions restricted for capital expenditure	-	(2,500)
Realized and unrealized loss (gain) on investments	1,120,376	(1,240,741)
Changes in assets and liabilities:		
Receivables	90,168	105,376
Inventory	13,278	11,455
Prepaid expenses and deposits	(9,800)	14,919
Accounts payable	(33,602)	(45,621)
Accrued expenses	222	42,251
Net cash provided (used) by operating activities	<u>557,818</u>	<u>(7,202)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(61,076)	(194,595)
Change in cash and cash equivalents held for investment	(172,361)	32,187
Purchase of investments	(4,193,718)	(1,665,604)
Sales of investments	<u>4,116,301</u>	<u>1,817,547</u>
Net cash used by investing activities	<u>(310,854)</u>	<u>(10,465)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for capital expenditure and collection items	114,500	35,834
Proceeds from debt	-	115,000
Principal payments on debt	<u>(16,180)</u>	<u>(10,288)</u>
Net cash provided by financing activities	<u>98,320</u>	<u>140,546</u>
Net increase in cash and cash equivalents	345,284	122,879
Cash and cash equivalents at beginning of year	<u>1,354,116</u>	<u>1,231,237</u>
Cash and cash equivalents at end of year	<u>\$ 1,699,400</u>	<u>\$ 1,354,116</u>
Supplemental disclosures of cash flow information -		
Cash paid for interest	<u>\$ 9,247</u>	<u>\$ 5,892</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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. In an effort to translate its vision into practice, the Museum undertakes a number of strategic initiatives each year. These discretionary projects are of finite duration and occur outside of the Museum's normal day-to-day activities. In 2018 and 2017, the Museum's strategic initiatives included completion of its Master Plan and work on a publication about the Robert Irwin permanent installation.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Represents net assets that are available for operations and which are not otherwise limited by donor restriction. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees (the Board). As of December 31, 2018 and 2017, the Board has designated net assets for a specific purpose as described in Note 7. The Board has also designated net assets as funds functioning as an endowment, whereby the principal of these funds is invested and the income made available for use by the Museum in accordance with the endowment's spending policy as described in Note 9.

Net Assets With Donor Restrictions - Represents net assets subject to donor-imposed restrictions on the expenditure or use of the contributed assets. Some donor-imposed restrictions are temporary in nature, such as those that will be met by either action or passage of time. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity for the purpose of generating investment income to fund operations or maintain art installations.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

When the donor-imposed restriction expires or is satisfied, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Reclassifications from net assets with donor restrictions occur even if the restricted contributions are received and spent within the same year.

Measure of 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 or contributions restricted in perpetuity. Net assets released from restrictions are reported as operating and non-operating according to the nature of the expense. Net assets released from restrictions for operating expenses includes support for operating activities that is generated from the Museum's endowment and appropriated in accordance with the Museum's spending policy.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, investments with original maturities of less than three months when purchased and money market funds are considered to be cash equivalents unless held for long-term investment. Uninvested cash of donor-restricted endowment funds that are perpetual in nature is reported within long-term investments.

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 evaluated on a regular basis by management and is based on historical experience and economic conditions. Receivables are charged against the allowance when management determines that the receivable will not be collected. Subsequent recoveries, if any, are credited to the allowance. At December 31, 2018 and 2017, there was no allowance for doubtful accounts.

Inventory

Inventory consists of program-related merchandise held for sale in the gift shop and items that are distributed to Museum members or significant contributors. Merchandise inventory has been recorded at the lower of average cost or net realizable value.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Significant Accounting Policies (Continued)

Investments and Investment Income

Investments are reported at fair value as discussed in Note 4. Investment income is reported in the Statement of Activities and Changes in net assets as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Investment income whose use is restricted by the donor is reported as an increase in net assets with donor restrictions until expended in accordance with donor-imposed restrictions. Investment income is reported net of investment related expenses.

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.

Property and Equipment

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

Collections

In accordance with accounting policies generally followed by art museums, the value of the Museum's collections, which since the Museum's inception have either been donated or constructed with Museum funds, has been excluded from the Statement of Financial Position and gifts of art objects are excluded from revenue in the Statements of Activities and Changes in Net Assets. Purchases of collection items are recorded as decreases in net assets without donor restrictions 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 net assets with donor restrictions at the time the collection item is acquired and placed in service.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

Contributions are recognized as revenue when received or when an unconditional promise to give has been received from the donor.

Conditional promises to give are not recognized until the condition on which they depend have been met.

Contributed property and equipment are recorded at estimated fair value at the date of donation. If donors stipulate how long the asset must be used, the contributions are recorded as contributions with donor restrictions. 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.

Contributed stock is recorded at fair value on the date of the donation.

Contributed materials are recorded at their estimated fair value when received.

Contributed services that meet the revenue recognition requirements of GAAP are recorded at estimated fair value when received. To be recognized as revenue, the donated services must either (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, 2018 and 2017, the Museum received approximately \$12,200 and \$3,600 in contributed legal services, respectively.

Admissions are recognized as revenue when received and the related Museum tours have been provided.

Memberships are recognized as revenue when received since they are considered contributions to the Museum and are not refundable.

Advertising Costs

The Museum uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was \$27,498 and \$24,738, respectively.

Functional Allocation of Expenses

The Statement of Functional Expenses presents expenses by function and natural classification. The Museum's programs include conservation; curatorial, events and scholarship; education; visitor services; and strategic initiatives. Supporting services include fundraising and management and general administrative activities. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Expenses that cannot be directly identified to a functional area have been allocated based upon time and effort, usage, or other reasonable methods.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Significant Accounting Policies (Continued)

Income Tax Status

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 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 2015.

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.

Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amended the reporting model for nonprofit organizations and enhanced required disclosures. The Museum adopted ASU 2016-14 during fiscal year 2018, with retrospective application to fiscal year 2017. The major changes to the Museum financial statements as a result of adopting ASU 2016-14 include (a) the presentation of two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (c) modifying the presentation of underwater endowment funds and related disclosures, (d) requiring an analysis of expenses by function and nature in either the Statement of Activities and Changes in Net Assets, a separate financial statement, or in the notes, and (e) presenting investment return net of external and direct internal investment expenses.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Contributions and Grants Receivable

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

	<u>2018</u>	<u>2017</u>
Amounts to be collected within one year	\$ 79,500	\$ 200,435
Amounts to be collected one to five years	<u>10,000</u>	<u>95,000</u>
Total contributions and grants receivable	<u>\$ 89,500</u>	<u>\$ 295,435</u>
Contributions receivable	\$ 69,500	\$ 123,435
Contributions receivable - collection items	20,000	134,500
Grants receivable	<u>-</u>	<u>37,500</u>
Total contributions and grants receivable	<u>\$ 89,500</u>	<u>\$ 295,435</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 - Quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access as of the reporting date.

Level 2 - Pricing inputs other than quoted prices included in Level 1, which are either directly or indirectly observable. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs are unobservable and significant to the fair value measurement.

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 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 CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 from December 31, 2017.

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. *Bank deposit accounts* are valued at cost, which approximates fair value since all are denominated in U.S. currency.

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 by general classification and by level within the valuation hierarchy.

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
U.S. fixed income	\$ 1,599,169	\$ -	\$ -	\$ 1,599,169
Foreign equity	495,772	-	-	495,772
U.S. equity	123,488	-	-	123,488
Global equity	<u>61,722</u>	<u>-</u>	<u>-</u>	<u>61,722</u>
Total mutual funds	<u>2,280,151</u>	<u>-</u>	<u>-</u>	<u>2,280,151</u>
Exchange traded funds:				
U.S. equity	4,564,539	-	-	4,564,539
Foreign equity	<u>1,207,513</u>	<u>-</u>	<u>-</u>	<u>1,207,513</u>
Total exchange traded funds	<u>5,772,052</u>	<u>-</u>	<u>-</u>	<u>5,772,052</u>
Equities - foreign	<u>705,319</u>	<u>-</u>	<u>-</u>	<u>705,319</u>
Fixed income:				
U.S. corporate	2,232,845	-	-	2,232,845
U.S. Government	1,447,458	-	-	1,447,458
Foreign	<u>149,944</u>	<u>-</u>	<u>-</u>	<u>149,944</u>
Total fixed income	<u>3,830,247</u>	<u>-</u>	<u>-</u>	<u>3,830,247</u>
Bank deposit accounts	<u>766,789</u>	<u>-</u>	<u>-</u>	<u>766,789</u>
Total investments	<u>\$ 13,354,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,354,558</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 4 - Fair Value Measurements (Continued)

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
U.S. fixed income	\$ 1,104,686	\$ -	\$ -	\$ 1,104,686
Foreign equity	701,911	-	-	701,911
U.S. equity	2,552,271	-	-	2,552,271
Global equity	67,276	-	-	67,276
Balanced	417,170	-	-	417,170
Total mutual funds	4,843,314	-	-	4,843,314
Exchange traded funds:				
U.S. equity	3,474,517	-	-	3,474,517
Foreign equity	1,518,894	-	-	1,518,894
Total exchange traded funds	4,993,411	-	-	4,993,411
Equities - foreign	755,991	-	-	755,991
Fixed Income:				
U.S. corporate	1,964,166	-	-	1,964,166
U.S. Government	924,079	-	-	924,079
Foreign	149,767	-	-	149,767
Total fixed income	3,038,012	-	-	3,038,012
Bank deposit accounts	594,428	-	-	594,428
Total investments	<u>\$ 14,225,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,225,156</u>

Note 5 - Property and Equipment

Property and equipment consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 236,487	\$ 236,487
Buildings and improvements	1,288,735	1,282,435
Furniture, fixtures, and equipment	392,118	355,592
Automobiles	57,667	39,417
Total property and equipment	1,975,007	1,913,931
Less: accumulated depreciation	(975,334)	(910,643)
Total property and equipment, net	<u>\$ 999,673</u>	<u>\$ 1,003,288</u>

Depreciation expense was \$64,691 and \$58,135 for the years ended December 31, 2018 and 2017, respectively.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 6 - Debt

Debt consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Note payable to a bank, collateralized by property with a book value of approximately \$94,000; 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.	\$ 33,576	\$ 40,777
Note payable to a bank, collateralized by property with a book value of approximately \$172,000; 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>102,448</u>	<u>111,427</u>
Total debt	<u>\$ 136,024</u>	<u>\$ 152,204</u>

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 17,211
2020	18,321
2021	19,533
2022	19,993
2023	12,006
Thereafter	<u>48,960</u>
Total	<u>\$ 136,024</u>

Note 7 - Board Designated for Specified Purpose

Included within net assets without donor restrictions are the following Board designated amounts as of December 31:

	<u>2018</u>	<u>2017</u>
John Chamberlain Building restoration	\$ 157,992	\$ 232,267
Artillery Sheds restoration	85,055	86,030
Reprinting of Chinati book	100,000	-
Website development	75,000	-
Other special projects and programs	<u>31,000</u>	<u>-</u>
Total board designated for specified purpose	<u>\$ 449,047</u>	<u>\$ 318,297</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 8 - Net Assets With Donor Restrictions

The Museum's net assets with donor restrictions are available for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to specified purpose or period:		
Archive project	\$ 500,118	\$ -
Robert Irwin publication	49,194	63,868
Education/Outreach programs	49,000	34,000
Restoration	25,000	-
Master Plan implementation	-	100,000
Timing restrictions	25,000	50,000
Accumulated endowment (losses) gains	<u>(95,612)</u>	<u>1,226,507</u>
Total subject to specified purpose or period	552,700	1,474,375
Subject to restriction in perpetuity	<u>13,237,422</u>	<u>13,237,422</u>
Total net assets with donor restrictions	<u>\$ 13,790,122</u>	<u>\$ 14,711,797</u>

During 2018 and 2017, 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>2018</u>	<u>2017</u>
Released for operations:		
Chinati Weekend	\$ 282,390	\$ 235,312
Master Plan implementation	100,000	-
Education/Outreach programs	64,000	36,250
Archive project	24,882	-
Community Day	12,153	-
Newsletter	10,000	10,000
Internship program	5,000	5,000
Artist-in-Residence	5,000	5,000
Master Plan study	-	217,667
Temporary exhibitions	-	59,500
Robert Irwin Art Installation operating costs	-	10,000
Timing restrictions	50,000	-
General operations - appropriated from endowment	<u>650,731</u>	<u>575,000</u>
Total released for operations	<u>1,204,156</u>	<u>1,153,729</u>
Released for collection items and capital expenditures:		
Robert Irwin Art Installation and publication	14,674	30,544
John Chamberlain Building restoration	-	86,352
Purchase of Ice Plant	<u>-</u>	<u>66,000</u>
Total released for collection items and capital expenditures	<u>14,674</u>	<u>182,896</u>
Released for investment management fees	<u>61,146</u>	<u>63,206</u>
Total net assets released from restrictions	<u>\$ 1,279,976</u>	<u>\$ 1,399,831</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 9 - Endowment Funds

The Museum's endowment funds consist of donor-restricted endowment funds for general operations and the care and maintenance of the Robert Irwin Installation, as well as funds designated by the Board of Trustees to function as an endowment for the care and maintenance of the Robert Irwin Installation. Net assets associated with endowments, including funds designated by the Board 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 - Effective September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs Texas charitable institutions with respect to the management, investment and expenditure of donor-restricted endowment funds. The Board of Trustees of the Museum has interpreted the UPMIFA 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 net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Museum; and (7) the Museum's investment policies.

Return Objectives and Risk Parameters - The Museum has adopted investment and spending policies for 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 over the long-term. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period(s) and a Board-designated endowment fund. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 5% after inflation, over a full market cycle (3 to 5 years). 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, 2018 AND 2017

Note 9 - Endowment Funds (Continued)

Spending Policy - For the general operations endowment, the Museum has a policy authorizing the withdrawal of up to 5% of the total market value of the related endowment fund, based on the average value of the related endowment fund over the past 12 calendar quarters ending in June. For the Robert Irwin Installation endowment, the Museum has a policy authorizing the withdrawal of up to 3% of the total market value of the related endowment fund, based on the average value of the related endowment fund over the past 12 calendar quarters ending in June. In the case of endowment funds being in existence for fewer than three years, the average value may be calculated for the period the endowment fund has been in existence. In establishing this spending policy, the Museum considered its long-term expected return on the endowment funds. From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Museum has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Endowment Net Asset Composition and Changes

Endowment net assets consist of the following at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 235,679	\$ -	\$ 235,679
Donor-restricted endowment funds:			
Original donor restricted gift amount required to be maintained in perpetuity	-	13,237,422	13,237,422
Accumulated investment losses	-	(95,612)	(95,612)
Total endowments	<u>\$ 235,679</u>	<u>\$ 13,141,810</u>	<u>\$ 13,377,489</u>

At December 31, 2018, two donor-endowed funds with a total original gift value of \$13,237,422, fair value of \$13,141,810 and deficiency of \$95,612 were reported in net assets with donor restrictions.

Endowment net assets consist of the following at December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 250,000	\$ -	\$ 250,000
Donor-restricted endowment funds:			
Original donor restricted gift amount required to be maintained in perpetuity	-	13,237,422	13,237,422
Accumulated investment gains	-	1,226,508	1,226,508
Total	<u>\$ 250,000</u>	<u>\$ 14,463,930</u>	<u>\$ 14,713,930</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 9 - Endowment Funds (Continued)

The changes in the endowment funds for the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	\$ -	\$ 13,157,219	\$ 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	<u>250,000</u>	<u>14,463,930</u>	<u>14,713,930</u>
Fiscal year 2018 activity:			
Investment income	4,630	491,133	495,763
Net depreciation of investments	(18,886)	(1,101,376)	(1,120,262)
Investment management fees	(65)	(61,146)	(61,211)
Amounts appropriated for expenditure	-	(650,731)	(650,731)
Endowment net assets, December 31, 2018	<u>\$ 235,679</u>	<u>\$ 13,141,810</u>	<u>\$ 13,377,489</u>

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 10 - Commitments

Operating Leases

The Museum has operating leases for office equipment that expire in various years through 2023. Rent expense for the years ended December 31, 2018 and 2017 was \$23,240 and \$20,260, respectively.

Future minimum operating lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 9,701
2020	9,701
2021	4,591
2022	2,036
2023	<u>1,358</u>
Total	<u>\$ 27,387</u>

Defined Contribution Plan

The Museum has a voluntary 403(b) Thrift Plan (the Plan) for all full-time employees. Employer matching contributions into the Plan are discretionary. During the years ended December 31, 2018 and 2017, no employer matching contributions were made into the Plan by the Museum.

Note 11 - Concentrations

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At December 31, 2018 and 2017, the Museum had deposits in financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation of \$1,977,689 and \$1,475,230, 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, 2018 and 2017, contributions totaling approximately \$515,000 and \$455,000 respectively, were made to the Museum by members of the Board for operating support and art installations. At December 31, 2018 and 2017, the Museum had receivable balances from Board members of \$67,625 and \$152,935, respectively.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 12 - Liquidity and Availability of Resources

The following table reflects the Museum's financial assets at December 31, 2018, reduced by amounts not anticipated to be available for general expenditure within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or they are not convertible to cash within one year. Financial assets are available for general expenditure if they do not have donor or other restrictions limiting their use through purpose restrictions.

Financial assets available within one year:	<u>Amount</u>
Cash and cash equivalents	\$ 1,699,400
Receivables due within one year and not for collection items	78,457
Investments	<u>13,354,558</u>
Total financial assets available within one year	15,132,415
Amounts unavailable for general expenditure within one year:	
Restricted by donors with purpose or time restrictions	(648,312)
Restricted by donors in perpetuity	(13,237,422)
Board designated quasi-endowment	(235,679)
Board designated net assets	<u>(449,047)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 561,955</u>

The Museum regularly monitors liquidity required to meet its operational needs and other contractual commitments. In July 2019, the Board approved an Operating Reserve Policy which has a targeted reserve amount of \$750,000, representing approximately 25% of anticipated fiscal year 2019 operating expenses. For purposes of this calculation, the annual operating expenses include all recurring, predictable expenses such as program costs and compensation, but exclude depreciation, in-kind expenses and capital expenditures.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Museum considers all expenditures related to its ongoing program activities and support services to be general expenditures. The Board designated net assets may be drawn upon, if necessary, with Board approval to meet unexpected liquidity needs. The income from donor-restricted endowments may be used for operating purposes and is subject to the endowment spending policy as described in Note 9.

Note 13 - Subsequent Events

In March 2019, the Museum purchased land and a building for \$235,000. The Museum has evaluated subsequent events through October 10, 2019, the date the financial statements were available to be issued.

* * * End of Notes * * *

