



THE CHINATI FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(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**

Opinion

We have audited the accompanying financial statements of The Chinati Foundation (the Museum), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Museum as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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



Houston, Texas
October 28, 2022

THE CHINATI FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents (Note 12)	\$ 3,068,318	\$ 2,345,518
Contributions receivable (Notes 3 and 12)	708,248	785,772
Inventory	186,686	195,750
Prepaid expenses and other assets	84,579	78,336
Endowment investments (Note 4)	17,373,500	16,010,946
Property and equipment, net (Notes 5 and 7)	1,118,166	1,168,808
 Total assets	 <u>\$ 22,539,497</u>	 <u>\$ 20,585,130</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 363,243	\$ 35,998
Accrued expenses	121,027	156,315
Paycheck Protection Program Loan (Note 6)	-	362,020
Debt (Note 7)	80,922	100,465
 Total liabilities	 <u>565,192</u>	 <u>654,798</u>
Net assets:		
Without donor restrictions:		
Undesignated	1,753,158	951,658
Board designated for specified purpose (Note 9)	1,515,846	290,898
Board designated endowments (Note 11)	336,819	300,087
Invested in property and equipment, net of related debt	1,037,244	1,068,343
 Total without donor restrictions	 <u>4,643,067</u>	 <u>2,610,986</u>
With donor restrictions:		
Time restricted for future periods (Note 10)	5,000	50,000
Purpose restricted (Note 10)	4,088,816	4,031,924
Perpetual in nature (Notes 10 and 11)	13,237,422	13,237,422
 Total with donor restrictions	 <u>17,331,238</u>	 <u>17,319,346</u>
 Total net assets	 <u>21,974,305</u>	 <u>19,930,332</u>
 Total liabilities and net assets	 <u>\$ 22,539,497</u>	 <u>\$ 20,585,130</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue and support:						
Contributions and grants (Note 12)	\$ 2,468,710	\$ 944,782	\$ 3,413,492	\$ 1,249,089	\$ 1,061,467	\$ 2,310,556
Admissions	149,184	-	149,184	99,916	-	99,916
Memberships	149,787	-	149,787	135,390	-	135,390
Museum store sales, net of cost of goods sold	51,274	-	51,274	42,853	-	42,853
Forgiveness of Paycheck Protection Program Loans	724,042	-	724,042	-	-	-
Other revenue	48,470	-	48,470	48,761	-	48,761
Net assets released from restrictions for operating expenses (Note 10)	2,840,241	(2,840,241)	-	1,382,256	(1,382,256)	-
Total operating revenue and support	6,431,708	(1,895,459)	4,536,249	2,958,265	(320,789)	2,637,476
Operating expenses:						
Program services:						
Conservation	1,315,070	-	1,315,070	497,064	-	497,064
Curatorial, events and scholarship	1,898,175	-	1,898,175	966,435	-	966,435
Education	229,326	-	229,326	203,833	-	203,833
Visitor services	251,934	-	251,934	276,970	-	276,970
Total program services	3,694,505	-	3,694,505	1,944,302	-	1,944,302
Supporting services:						
Administrative	251,378	-	251,378	311,474	-	311,474
Fundraising	418,772	-	418,772	557,119	-	557,119
Total operating expenses before depreciation and amortization	4,364,655	-	4,364,655	2,812,895	-	2,812,895
Operating (deficit) surplus before depreciation and amortization	2,067,053	(1,895,459)	171,594	145,370	(320,789)	(175,419)
Depreciation and amortization	80,119	-	80,119	73,983	-	73,983
Excess (deficit) of operating revenue and support over operating expenses	1,986,934	(1,895,459)	91,475	71,387	(320,789)	(249,402)
Nonoperating revenue, support and expenses:						
Dividends and interest	7,841	335,764	343,605	13,688	337,092	350,780
Realized and unrealized gain on investments	38,489	1,650,909	1,689,398	19,057	1,062,494	1,081,551
Investment management fees	(80,505)	-	(80,505)	(74,396)	-	(74,396)
Net assets released from restrictions for management fees (Note 10)	79,322	(79,322)	-	73,355	(73,355)	-
Change in net assets	2,032,081	11,892	2,043,973	103,091	1,005,442	1,108,533
Net assets at beginning of year	2,610,986	17,319,346	19,930,332	2,507,895	16,313,904	18,821,799
Net assets at end of year	<u>\$ 4,643,067</u>	<u>\$ 17,331,238</u>	<u>\$ 21,974,305</u>	<u>\$ 2,610,986</u>	<u>\$ 17,319,346</u>	<u>\$ 19,930,332</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021

	Program Services					Supporting Services		
	Conservation	Curatorial, Events and Scholarship	Education	Visitor Services	Total	Administrative	Fundraising	Grand Total
Advertising	\$ -	\$ 4,638	\$ 1,828	\$ 6,420	\$ 12,886	\$ 605	\$ -	\$ 13,491
Automobile	4,968	4,601	531	103	10,203	652	193	11,048
Catering	-	-	-	2,625	2,625	-	-	2,625
Contract services	20,127	119,629	19,493	693	159,942	2,043	8,527	170,512
Credit card processing fees	1,429	2,673	-	11,511	15,613	31	6,646	22,290
Depreciation and amortization	31,994	15,399	3,651	10,235	61,279	10,881	7,959	80,119
Insurance	31,974	31,052	4,568	11,395	78,989	7,891	2,803	89,683
Interest	2,721	2,721	-	-	5,442	-	-	5,442
Maintenance	4,640	4,880	569	53	10,142	333	99	10,574
Member benefit items	-	-	-	-	-	-	6,994	6,994
Merchandise cost	-	-	-	20,409	20,409	-	-	20,409
Miscellaneous	229	-	952	332	1,513	3,254	5,562	10,329
Office expense	3,247	4,996	1,531	17,110	26,884	8,643	23,750	59,277
Postage, freight and shipping	2,613	8,106	194	2,177	13,090	-	3,098	16,188
Printing	1	19,524	922	2,329	22,776	121	3,366	26,263
Professional fees	847,495	1,078,290	5,000	4,633	1,935,418	58,087	42,420	2,035,925
Rent	-	8,935	2,674	2,674	14,283	1,308	4,778	20,369
Salaries, taxes and benefits	349,580	456,724	176,933	184,490	1,167,727	159,992	305,627	1,633,346
Supplies and materials	32,038	71,585	7,698	330	111,651	315	371	112,337
Telephone	2,084	3,136	1,563	2,084	8,867	3,126	2,605	14,598
Travel and entertainment	701	67,109	2,685	132	70,627	2,391	330	73,348
Utilities	11,223	9,576	2,185	2,843	25,827	2,586	1,603	30,016
Total expenses by function	1,347,064	1,913,574	232,977	282,578	3,776,193	262,259	426,731	4,465,183
Less: gift shop cost of goods sold included with revenues on the statement of activities	-	-	-	(20,409)	(20,409)	-	-	(20,409)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,347,064</u>	<u>\$ 1,913,574</u>	<u>\$ 232,977</u>	<u>\$ 262,169</u>	<u>\$ 3,755,784</u>	<u>\$ 262,259</u>	<u>\$ 426,731</u>	<u>\$ 4,444,774</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2020

	Program Services					Supporting Services		Grand Total
	Conservation	Curatorial, Events and Scholarship	Education	Visitor Services	Total	Administrative	Fundraising	
Advertising	\$ -	\$ 2,270	\$ 225	\$ 2,439	\$ 4,934	\$ 180	\$ -	\$ 5,114
Automobile	5,289	5,220	591	114	11,214	725	215	12,154
Catering	-	-	-	990	990	-	-	990
Contract services	9,185	75,157	3,545	4,600	92,487	7,729	4,660	104,876
Credit card processing fees	-	905	-	9,485	10,390	170	10,552	21,112
Depreciation and amortization	29,546	14,785	3,668	8,452	56,451	12,157	5,375	73,983
Insurance	28,084	27,889	3,694	15,123	74,790	7,044	2,106	83,940
Interest	2,549	2,549	-	-	5,098	1,553	-	6,651
Maintenance	5,957	5,912	384	2,024	14,277	472	140	14,889
Member benefit items	-	-	-	-	-	-	8,290	8,290
Merchandise cost	-	-	-	16,756	16,756	-	-	16,756
Miscellaneous	966	1,552	223	443	3,184	7,603	2,526	13,313
Office expense	2,984	6,555	1,587	17,073	28,199	4,824	14,224	47,247
Postage, freight and shipping	1,243	6,586	-	3,822	11,651	-	6,701	18,352
Printing	1,339	14,489	121	1,127	17,076	470	773	18,319
Professional fees	15,251	143,868	2,737	8,018	169,874	73,921	64,753	308,548
Rent	-	-	2,533	2,533	5,066	1,069	4,143	10,278
Salaries, taxes and benefits	382,973	580,300	177,376	201,696	1,342,345	172,328	344,753	1,859,426
Supplies and materials	24,653	78,823	5,433	776	109,685	160	7,166	117,011
Telephone	2,320	1,879	1,379	1,836	7,414	3,674	2,295	13,383
Travel and entertainment	36	2,444	534	165	3,179	22,763	80,908	106,850
Utilities	14,235	10,037	3,471	4,706	32,449	6,789	2,914	42,152
Total expenses by function	526,610	981,220	207,501	302,178	2,017,509	323,631	562,494	2,903,634
Less: gift shop cost of goods sold included with revenues on the statement of activities	-	-	-	(16,756)	(16,756)	-	-	(16,756)
Total expenses included in the expense section on the statement of activities	<u>\$ 526,610</u>	<u>\$ 981,220</u>	<u>\$ 207,501</u>	<u>\$ 285,422</u>	<u>\$ 2,000,753</u>	<u>\$ 323,631</u>	<u>\$ 562,494</u>	<u>\$ 2,886,878</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,043,973	\$ 1,108,533
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	80,119	73,983
Loss on disposal	-	765
Realized and unrealized gain on investments	(1,689,398)	(1,081,551)
Forgiveness of Paycheck Protection Program loans	(724,042)	-
(Increase) decrease in assets:		
Receivables	77,524	(280,772)
Inventory	9,064	(57,651)
Prepaid expenses and other assets	(16,682)	44,652
Increase (decrease) in liabilities:		
Accounts payable	327,245	(57,133)
Accrued expenses	(35,288)	13,627
Net cash provided (used) by operating activities	<u>72,515</u>	<u>(235,547)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(19,038)	(26,153)
Purchase of investments	(1,527,782)	(2,529,094)
Sales of investments	1,795,357	2,913,105
Net cash provided by investing activities	<u>248,537</u>	<u>357,858</u>
Cash flows from financing activities:		
Principal payments on debt	(19,542)	(18,331)
Proceeds from Paycheck Protection Program Loan	362,021	362,021
Net cash provided by financing activities	<u>342,479</u>	<u>343,690</u>
Net increase in cash, cash equivalents and restricted cash	663,531	466,001
Cash, cash equivalents and restricted cash at beginning of year	<u>3,146,258</u>	<u>2,680,257</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 3,809,789</u>	<u>\$ 3,146,258</u>
Supplemental disclosures of cash flow information -		
Cash paid for interest	<u>\$ 5,442</u>	<u>\$ 6,651</u>

See accompanying notes to financial statements.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1 - Organization

The Chinati Foundation (the Museum) is a not-for-profit museum for art, created and founded by the late artist Donald Judd. The Museum's mission is to present the work of a select group of distinguished artists, with each work installed permanently and according to the artists' specifications. The emphasis is on works in which art, architecture, and the surrounding landscape are inextricably linked.

The majority of the Museum's 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, internships, student and family art classes and workshops, lectures and performances, and regular publications. The Museum has developed a Master Plan which encompasses the conservation, restoration, maintenance and long-term development of the Museum's permanent collections and programs in accordance with the principles of Donald Judd. As part of the Master Plan, the Museum incurred professional fees of approximately \$1.6 million during 2021 for the restoration of the John Chamberlain Building.

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, 2021 and 2020, the Board has designated net assets for a specific purpose as described in Note 8. 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 11.

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.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 2 - Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Revenues are reported as increases in net assets without donor restrictions unless the use of the related asset is limited by donor-imposed restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received. Absent donor stipulations regarding how long the donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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, including maintenance or restoration of the Museum's collections. 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, Cash Equivalents and Restricted Cash

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.

The following is a reconciliation of cash, cash equivalents and restricted cash reported within the Statement of Financial Position to the amount shown within the Statement of Cash Flows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,068,318	\$ 2,345,518
Restricted cash recorded within endowment investments	<u>741,471</u>	<u>800,740</u>
Total cash, cash equivalents and restricted cash	<u>\$ 3,809,789</u>	<u>\$ 3,146,258</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 2 - Significant Accounting Policies (Continued)

Contributions Receivable

Contributions receivable are recorded as revenue in the year they are pledged 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 present value if such discount would be 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, 2021 and 2020, 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.

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. Donated stock is recorded at fair value at the date of donation. 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. Donated property and equipment are recorded at fair value at the date of donation. 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

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 2 - Significant Accounting Policies (Continued)

Collections

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. Proceeds from deaccessions or insurance recoveries are available for the acquisition of collections or the direct care of existing collections, with such direct care either extending the life or enhancing the quality of the existing collection.

Paycheck Protection Program Loan

The Paycheck Protection Program (PPP) Loan has been accounted for under the debt accounting model, whereby the loan proceeds and related interest are recorded as a liability. Once the entity is legally released as the primary obligor on the debt, the liability would be derecognized, resulting in a gain on loan extinguishment.

Revenue Recognition

Contributions are recognized as revenue when cash, securities or other assets; an unconditional commitment to give; or a notification of a beneficial interest is received. Contributed securities are recorded at fair value on the date of donation. Contributed materials are recorded at their estimated fair value when received. Contributed property and equipment are recorded at estimated fair value at the date of donation.

Conditional promises to give, that is, those with a measurable performance or other barriers, and a right of return, are not recognized as revenue until the conditions on which they depend have been met.

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.

Admissions are recognized as revenue at the point in time when the related Museum tours have been provided.

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Memberships are comprised of an exchange element based on the value of the benefits provided, and a contribution element which represents the difference between the total membership fees paid and the fair value of the exchange element. Memberships are for a one-year period and provide various benefits depending on the membership level. All memberships include unlimited admission to the Museum, a discount for purchases made at the Museum's store, access to discounted tickets for certain events, and other items such as receipt of the annual newsletter and a member t-shirt. Certain levels of membership include additional benefits such as the receipt of a limited-edition print and access to private tours. The determination of the fair value of the benefits provided within the membership includes an assessment of expected utilization. The Museum recognizes revenue for the contribution portion upon the sale of the membership and utilizes the output method for recognizing the exchange transactions. Memberships are not refundable.

Museum store sales are recorded at the time of sale.

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, 2021 and 2020 was approximately \$13,500 and \$5,100, 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; and visitor services. 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 are attributable to more than one functional activity are allocated among the activities benefited. Salaries and related costs are allocated on the basis of estimated time and effort expended, while other types of expenses are allocated based upon usage or other equitable methods.

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 2018.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 2 - Significant Accounting Policies (Continued)

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.

Reclassifications

Certain amounts in the 2020 financial statements have been reclassified to conform with the current year presentation, with no effect on the previously reported changes in net assets.

Subsequent Events

Management has evaluated subsequent events through October 28, 2022, the date which the financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Amounts to be collected within one year	\$ 408,248	\$ 330,772
Amounts to be collected one to five years	<u>300,000</u>	<u>455,000</u>
Total contributions receivable	<u>\$ 708,248</u>	<u>\$ 785,772</u>

Note 4 - Fair Value Measurements

GAAP requires that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. 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 reporting date. The three levels of the fair value hierarchy are as follows:

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 CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 4 - Fair Value Measurements (Continued)

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 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, 2021 from December 31, 2020.

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 deemed to be actively traded and 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, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
U.S. equity	\$ 696,873	\$ -	\$ -	\$ 696,873
U.S. fixed income	674,819	-	-	674,819
Global equity	<u>95,039</u>	<u>-</u>	<u>-</u>	<u>95,039</u>
Total mutual funds	<u>1,466,731</u>	<u>-</u>	<u>-</u>	<u>1,466,731</u>
Exchange traded funds:				
U.S. equity	7,046,981	-	-	7,046,981
Foreign equity	<u>1,568,024</u>	<u>-</u>	<u>-</u>	<u>1,568,024</u>
Total exchange traded funds	<u>8,615,005</u>	<u>-</u>	<u>-</u>	<u>8,615,005</u>
Equities - foreign	<u>1,107,455</u>	<u>-</u>	<u>-</u>	<u>1,107,455</u>
Fixed income:				
U.S. corporate	2,878,127	-	-	2,878,127
U.S. Government	<u>2,564,711</u>	<u>-</u>	<u>-</u>	<u>2,564,711</u>
Total fixed income	<u>5,442,838</u>	<u>-</u>	<u>-</u>	<u>5,442,838</u>
Bank deposit accounts	<u>741,471</u>	<u>-</u>	<u>-</u>	<u>741,471</u>
Total investments	<u>\$ 17,373,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,373,500</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 4 - Fair Value Measurements (Continued)

<u>December 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
U.S. equity	\$ 713,555	\$ -	\$ -	\$ 713,555
U.S. fixed income	643,973	-	-	643,973
Global equity	<u>80,260</u>	<u>-</u>	<u>-</u>	<u>80,260</u>
Total mutual funds	<u>1,437,788</u>	<u>-</u>	<u>-</u>	<u>1,437,788</u>
Exchange traded funds:				
U.S. equity	6,400,826	-	-	6,400,826
Foreign equity	<u>1,438,993</u>	<u>-</u>	<u>-</u>	<u>1,438,993</u>
Total exchange traded funds	<u>7,839,819</u>	<u>-</u>	<u>-</u>	<u>7,839,819</u>
Equities - foreign	<u>1,021,786</u>	<u>-</u>	<u>-</u>	<u>1,021,786</u>
Fixed income:				
U.S. corporate	2,749,034	-	-	2,749,034
U.S. Government	<u>2,161,779</u>	<u>-</u>	<u>-</u>	<u>2,161,779</u>
Total fixed income	<u>4,910,813</u>	<u>-</u>	<u>-</u>	<u>4,910,813</u>
Bank deposit accounts	<u>800,740</u>	<u>-</u>	<u>-</u>	<u>800,740</u>
Total investments	<u>\$ 16,010,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,010,946</u>

Note 5 - Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 395,064	\$ 395,064
Buildings and improvements	1,380,571	1,380,571
Furniture, fixtures, and equipment	460,843	442,886
Automobiles	<u>56,167</u>	<u>57,667</u>
Total property and equipment	2,292,645	2,276,188
Less: accumulated depreciation	<u>(1,174,479)</u>	<u>(1,107,380)</u>
Total property and equipment, net	<u>\$ 1,118,166</u>	<u>\$ 1,168,808</u>

Depreciation expense was \$69,680 and \$67,893 for the years ended December 31, 2021 and 2020, respectively.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 6 - Paycheck Protection Program Loans

On April 16, 2020, the Museum entered into a loan agreement and promissory note pursuant to the Paycheck Protection Program which was established under the CARES Act and is administered by the U.S. Small Business Administration (SBA). The Museum received loan proceeds of \$362,021 and accounted for the federal loan under the debt accounting model. Subject to certain conditions, the loan was eligible for forgiveness in whole or in part. On March 11, 2021, the Museum received notification that their forgiveness application was approved by the SBA. Accordingly, the federal loan proceeds of \$362,021 is recorded as forgiveness of debt on the accompanying statement of activities and recognized as income during the year ended December 31, 2021. The Museum may be subject to examination from the SBA for six years following the date of forgiveness.

On January 22, 2021, the Museum entered into a loan agreement and promissory note pursuant to the Paycheck Protection Program and received loan proceeds of \$362,021. Subject to certain conditions, the loan was eligible for forgiveness in whole or in part. On September 3, 2021, the Museum received notification that their forgiveness application was approved by the SBA. Accordingly, the federal loan proceeds of \$362,021 is recorded as forgiveness of debt on the accompanying statement of activities and recognized as income during the year ended December 31, 2021. The Museum may be subject to examination from the SBA for six years following the date of forgiveness.

Note 7 - Debt

Debt consists of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Note payable to a bank, collateralized by property with a book value of approximately \$84,000; 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.	\$ 8,701	\$ 17,581
Note payable to a bank, collateralized by property with a book value of approximately \$158,000; 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>72,221</u>	<u>82,884</u>
Total debt	<u>\$ 80,922</u>	<u>\$ 100,465</u>

THE CHINATI FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 7 - Debt (Continued)

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 19,996
2023	11,962
2024	12,660
2025	13,415
2026	14,207
Thereafter	<u>8,682</u>
Total	<u>\$ 80,922</u>

Note 8 - Commitments

Operating Leases

The Museum has operating leases for office equipment that expire in various years through 2026. Rent expense for the years ended December 31, 2021 and 2020 was approximately \$20,370 and \$10,280, respectively.

Future minimum lease payments under these operating leases are as follows as of December 31, 2021:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 10,670
2023	9,332
2024	7,974
2025	7,974
2026	<u>3,988</u>
Total	<u>\$ 39,938</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, 2021 and 2020, no employer matching contributions were made into the Plan by the Museum.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 9 - Board Designated for Specified Purpose

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

	<u>2021</u>	<u>2020</u>
Grassland restoration	\$ 500,000	\$ -
Internship program	500,000	-
Adobe wall restoration	250,000	-
Operating reserve	200,000	200,000
Artillery Sheds restoration	65,396	68,599
John Chamberlain Building restoration	-	10,383
Other special projects and programs	<u>450</u>	<u>11,916</u>
Total board designated for specified purpose	<u>\$ 1,515,846</u>	<u>\$ 290,898</u>

Note 10 - Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose/period:		
Master Plan strategic initiatives	\$ 245,000	\$ 1,436,519
Archive project	-	33,440
Education/Outreach programs	43,375	87,375
Timing restrictions	<u>5,000</u>	<u>50,000</u>
Total subject to expenditure for specified purpose/period	<u>293,375</u>	<u>1,607,334</u>
Endowments:		
Subject to appropriation and expenditure in accordance with donor restrictions:		
Available for general operations	3,713,469	2,424,350
Available for maintenance of Robert Irwin Installation	<u>86,972</u>	<u>50,240</u>
Total endowments subject to appropriation and expenditure in accordance with donor restrictions	<u>3,800,441</u>	<u>2,474,590</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
General operations	12,987,422	12,987,422
Maintenance of Robert Irwin Installation	<u>250,000</u>	<u>250,000</u>
Total perpetual in nature	<u>13,237,422</u>	<u>13,237,422</u>
Total net assets with donor restrictions	<u>\$ 17,331,238</u>	<u>\$ 17,319,346</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 10 - Net Assets With Donor Restrictions (Continued)

During 2021 and 2020, 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>2021</u>	<u>2020</u>
Released for operations:		
Master Plan strategic initiatives	\$ 1,800,257	\$ 208,116
Chinati Weekend	226,282	75,950
Education/Outreach programs	116,000	139,417
Timing restrictions	50,000	-
Archive project	34,440	274,773
Newsletter	10,000	10,000
Artist-in-Residence	10,000	5,000
Covarrubias Cleanup/Irwin Viewsheds	6,762	6,500
Internship program	5,000	5,000
Temporary exhibitions	-	25,000
Community Day	-	1,000
General operations - appropriated from endowment	<u>581,500</u>	<u>631,500</u>
Total released for operations	2,840,241	1,382,256
Released for investment management fees	<u>79,322</u>	<u>73,355</u>
Total net assets released from restrictions	<u>\$ 2,919,563</u>	<u>\$ 1,455,611</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 11 - 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, 2021 AND 2020

Note 11 - 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, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 336,819	\$ -	\$ 336,819
Donor-restricted endowment funds:			
Original donor restricted gift amount required to be maintained in perpetuity	-	13,237,422	13,237,422
Accumulated investment gains	<u>-</u>	<u>3,800,441</u>	<u>3,800,441</u>
Total endowments	<u>\$ 336,819</u>	<u>\$ 17,037,863</u>	<u>\$ 17,374,682</u>

Endowment net assets consist of the following at December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 300,087	\$ -	\$ 300,087
Donor-restricted endowment funds:			
Original donor restricted gift amount required to be maintained in perpetuity	-	13,237,422	13,237,422
Accumulated investment gains	<u>-</u>	<u>2,474,590</u>	<u>2,474,590</u>
Total	<u>\$ 300,087</u>	<u>\$ 15,712,012</u>	<u>\$ 16,012,099</u>

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 11 - Endowment Funds (Continued)

The changes in the endowment funds for the years ended December 31, 2021 and 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2020	\$ 280,857	\$ 15,017,281	\$ 15,298,138
Fiscal year 2020 activity:			
Investment income	7,604	337,092	344,696
Net appreciation of investments	19,167	1,062,494	1,081,661
Investment management fees	(1,041)	(73,355)	(74,396)
Amounts appropriated for expenditure	<u>(6,500)</u>	<u>(631,500)</u>	<u>(638,000)</u>
Endowment net assets, December 31, 2020	<u>300,087</u>	<u>15,712,012</u>	<u>16,012,099</u>
Fiscal year 2021 activity:			
Investment income	6,358	335,764	342,122
Net appreciation of investments	38,057	1,650,909	1,688,966
Investment management fees	(1,183)	(79,322)	(80,505)
Amounts appropriated for expenditure	<u>(6,500)</u>	<u>(581,500)</u>	<u>(588,000)</u>
Endowment net assets, December 31, 2021	<u>\$ 336,819</u>	<u>\$ 17,037,863</u>	<u>\$ 17,374,682</u>

Note 12 - Concentrations

FDIC Concentration

The Museum maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At December 31, 2021 and 2020, the Museum had deposits in financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation of \$3,028,442 and \$2,377,584, 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.

Donor Concentration

For the years ended December 31, 2021 and 2020, contributions totaling approximately \$1,039,000 and \$1,201,000, respectively, were made to the Museum by members of the Board for operating support and strategic initiatives. For the year ended December 31, 2021, one contributor accounted for approximately 37% of total contributions and grants revenue. For the year ended December 31, 2020, two contributors accounted for approximately 22% of total contributions and grants revenue. At December 31, 2021 and 2020, the Museum had receivable balances from Board members of approximately \$460,700 and \$709,800, respectively.

THE CHINATI FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Note 13 - Liquidity and Availability of Resources

The following table reflects the Museum's financial assets at December 31, 2021 and 2020, 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 for restoration or other strategic initiative projects included within the Master Plan.

	<u>2021</u>	<u>2020</u>
Financial assets available within one year:		
Cash and cash equivalents	\$ 3,068,318	\$ 2,345,518
Contribution receivables due within one year	408,248	330,772
Other receivables due within one year	17,437	9,536
Investments	<u>17,373,500</u>	<u>16,010,946</u>
Total financial assets available within one year	20,867,503	18,696,772
Less amounts not available for general expenditure within one year:		
Restricted by donors in perpetuity	(13,237,422)	(13,237,422)
Board designated quasi-endowment	(336,819)	(300,087)
Board designated net assets	(1,515,846)	(290,898)
Donor-restricted for items other than general expenditures	<u>(3,450,941)</u>	<u>(3,308,287)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,326,475</u>	<u>\$ 1,560,078</u>

The Museum regularly monitors liquidity required to meet its operational needs and other contractual commitments. The Museum has an Operating Reserve Policy which has a targeted reserve amount of \$750,000, representing approximately 25% of anticipated fiscal year operating expenses. For purposes of operating reserve 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, which is included in the "donor restricted for items other than general expenditures", is subject to the endowment spending policy as described in Note 11 and may be used for operating purposes.

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

