

The Chinati Foundation

Financial Statements

December 31, 2008 and 2007

The Chinati Foundation

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Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

To the Board of Directors
The Chinati Foundation
Marfa, Texas

We have audited the accompanying statements of financial position of The Chinati Foundation (the "Foundation") as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chinati Foundation as of December 31, 2008 and 2007, and the changes in its net assets, functional expenses and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Padgett, Stratemann & Co., L.L.P.

Certified Public Accountants
March 3, 2009

SAN ANTONIO • AUSTIN

100 N.E. Loop 410, Suite 1100 • San Antonio, Texas 78216 • P 210.828.6281 • T 800.879.4966 • F 210.826.8606 • www.padgett-cpa.com

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The Chinati Foundation

Statements of Financial Position

December 31, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 326,950	\$ 105,694
Restricted cash	2,091,913	1,368,819
Investment in marketable securities	5,216,947	9,273,932
Receivables:		
Promises to give	435,020	540,000
Endowment	840,696	1,440,761
Grants	153,350	201,667
Other	60,654	18,840
Inventory	191,735	209,958
Prepaid expenses	40,462	39,987
Property and equipment – net	929,025	876,513
Other assets	35,610	33,310
	<u>\$ 10,322,362</u>	<u>\$ 14,109,481</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 36,520	\$ 69,564
Accrued expenses	95,662	141,462
Long-term debt	108,737	100,599
	<u>240,919</u>	<u>311,625</u>

Net Assets

Unrestricted net assets (deficit)	(1,344,848)	1,037,484
Temporarily restricted net assets	388,051	1,467,132
Permanently restricted net assets	11,038,240	11,293,240
	<u>10,081,443</u>	<u>13,797,856</u>
	<u>\$ 10,322,362</u>	<u>\$ 14,109,481</u>

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	\$ 752,156	\$ 242,634	\$ (200,000)	\$ 794,790
Grants	-	355,932	-	355,932
Memberships	135,933	-	-	135,933
Museum store sales	105,971	-	-	105,971
Admissions	46,435	-	-	46,435
Dividends and interest	6,576	213,951	-	220,527
Realized and unrealized loss on securities	(2,683,404)	(822,210)	-	(3,505,614)
Other income	5,784	-	-	5,784
Net assets released from restrictions	1,069,388	(1,069,388)	-	-
Total revenues and other support	(561,161)	(1,079,081)	(200,000)	(1,840,242)
Functional expenses:				
Program	959,647	-	-	959,647
Administrative	643,795	-	-	643,795
Fundraising	217,729	-	-	217,729
Total functional expenses	1,821,171	-	-	1,821,171
Change in net assets before collection items not capitalized	(2,382,332)	(1,079,081)	(200,000)	(3,661,413)
Collection items purchased but not capitalized	-	-	55,000	55,000
Change in net assets	(2,382,332)	(1,079,081)	(255,000)	(3,716,413)
Net assets at beginning of year	1,037,484	1,467,132	11,293,240	13,797,856
Net assets (deficit) at end of year	\$ (1,344,848)	\$ 388,051	\$ 11,038,240	\$ 10,081,443

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	\$ 935,560	\$ 116,535	\$ 399,743	\$ 1,451,838
Grants	-	346,483	-	346,483
Memberships	176,983	-	-	176,983
Museum store sales	91,343	-	-	91,343
Admissions	59,688	-	-	59,688
Dividends and interest	3,797	270,699	-	274,496
Realized and unrealized gain on securities	-	380,577	-	380,577
Other income	3,573	-	-	3,573
Net assets released from restrictions	281,355	(281,355)	-	-
Total revenues and other support	1,552,299	832,939	399,743	2,784,981
Functional expenses:				
Program	851,242	-	-	851,242
Administrative	476,702	-	-	476,702
Fundraising	257,785	-	-	257,785
Total functional expenses	1,585,729	-	-	1,585,729
Change in net assets before collection items not capitalized	(33,430)	832,939	399,743	1,199,252
Collection items purchased but not capitalized	-	-	78,000	78,000
Change in net assets	(33,430)	832,939	321,743	1,121,252
Net assets at beginning of year	1,070,914	634,193	10,971,497	12,676,604
Net assets at end of year	\$ 1,037,484	\$ 1,467,132	\$ 11,293,240	\$ 13,797,856

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Statement of Functional Expenses

Year Ended December 31, 2008

	<u>Program Services</u>	Supporting Services		<u>Total</u>
		<u>Administrative</u>	<u>Fundraising</u>	
Advertising	\$ 3,395	\$ -	\$ -	\$ 3,395
Art restoration	258,079	-	-	258,079
Automobile	11,891	3,964	-	15,855
Bad debt expense	-	40,100	-	40,100
Bank fees	-	6,767	-	6,767
Contract services	-	11,971	-	11,971
Depreciation	34,258	1,803	-	36,061
Development	-	-	9,073	9,073
Educational programs	99,650	-	-	99,650
Employee benefits	24,175	16,613	4,826	45,614
Events	36,738	-	-	36,738
Exhibits	27,452	-	-	27,452
Insurance	54,164	47,007	4,275	105,446
Interest expense	11,594	561	-	12,155
Maintenance	13,702	3,426	-	17,128
Merchandise cost	-	55,085	-	55,085
Miscellaneous	244	5,169	-	5,413
Office expense	-	33,580	-	33,580
Payroll tax	22,995	21,978	12,230	57,203
Postage	-	5,389	16,169	21,558
Printing	-	4,891	17,873	22,764
Professional fees	5,850	94,443	-	100,293
Property tax	-	2,059	-	2,059
Publications	35,888	-	-	35,888
Salaries	272,990	260,902	145,196	679,088
Telephone	4,164	4,164	4,164	12,492
Travel and entertainment	-	19,210	3,923	23,133
Utilities	42,418	4,713	-	47,131
	\$ 959,647	\$ 643,795	\$ 217,729	\$ 1,821,171

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Statement of Functional Expenses

Year Ended December 31, 2007

	<u>Program Services</u>	Supporting Services		<u>Total</u>
		<u>Administrative</u>	<u>Fundraising</u>	
Advertising	\$ 2,393	\$ -	\$ -	\$ 2,393
Art restoration	28,643	-	-	28,643
Automobile	-	45,491	-	45,491
Bad debt expense	1,000	-	-	1,000
Bank fees	-	9,472	-	9,472
Contract services	8,900	16,205	-	25,105
Depreciation	34,454	-	-	34,454
Development	-	79,359	22,772	102,131
Educational programs	54,486	-	-	54,486
Employee benefits	34,013	13,605	20,408	68,026
Events	148,654	1,502	-	150,156
Exhibits	47,146	-	-	47,146
Insurance	41,827	4,647	-	46,474
Interest expense	-	12,574	-	12,574
Maintenance	21,319	5,330	-	26,649
Merchandise cost	-	72,165	-	72,165
Miscellaneous	186	1,778	-	1,964
Office expense	-	13,892	-	13,892
Payroll tax	22,521	9,008	13,513	45,042
Postage	-	16,038	-	16,038
Printing	-	4,383	-	4,383
Professional fees	-	30,491	-	30,491
Property tax	-	12,067	-	12,067
Publications	48,540	-	-	48,540
Salaries	297,948	119,179	178,769	595,896
Telephone	3,483	1,741	3,483	8,707
Travel and entertainment	12,560	2,978	18,840	34,378
Utilities	43,169	4,797	-	47,966
	<u>\$ 851,242</u>	<u>\$ 476,702</u>	<u>\$ 257,785</u>	<u>\$ 1,585,729</u>

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Change in net assets	\$ <u>(3,716,413)</u>	\$ <u>1,121,252</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	36,061	34,454
Realized and unrealized loss (gain) on securities	3,505,614	(380,577)
Allowance for pledges receivable	-	200,000
Donation of investments	-	(231,786)
Donation of vehicle	-	(4,500)
Changes in:		
Receivables	711,548	536,483
Inventory	18,223	(15,309)
Prepaid expenses	(475)	(7,475)
Other assets	(2,300)	1,176
Accounts payable	(33,044)	(18,515)
Accrued expenses	(45,800)	(8,851)
Total adjustments	<u>4,189,827</u>	<u>105,100</u>
Net cash provided by operating activities	<u>473,414</u>	<u>1,226,352</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(72,512)	(55,632)
Change in restricted cash	(723,094)	(385,012)
Purchase of marketable securities	(4,282,637)	(4,691,159)
Proceeds from sale of marketable securities	4,834,008	3,934,471
Net cash used in investing activities	<u>(244,235)</u>	<u>(1,197,332)</u>
Cash Flows From Financing Activities - principal payments on long-term debt	<u>(7,923)</u>	<u>(11,339)</u>
Net increase in cash and cash equivalents	221,256	17,681
Cash and cash equivalents beginning of year	<u>105,694</u>	<u>88,013</u>
Cash and cash equivalents at end of year	<u>\$ 326,950</u>	<u>\$ 105,694</u>

Notes to financial statements form an integral part of these statements.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization

The Chinati Foundation (the “Foundation”) is a not-for-profit organization created and founded by Donald Judd in 1986 in Marfa, Texas. Its mission is to display works of a limited number of artists and buildings on sites chosen by the artists. It is governed by an independent board of directors and managed by a professional staff.

The Foundation maintains a permanent collection and presents a broad range of supporting activities and educational programs for the public. The museum keeps regular public hours and is supported by charitable contributions, artwork and bookstore sales, museum memberships, and other sources of investment and contributed income.

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

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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

Unrestricted Net Assets – Unrestricted net assets represent expendable funds available for operations which are not otherwise limited by donor restriction.

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

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

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers all investments with original maturities of less than three months to be cash equivalents. Amounts excluded are cash and investments that are restricted for endowments. These cash and investments are classified as restricted cash.

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

Inventory

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

Investments

Investments in short-term instruments, fixed-income securities, and equity securities are carried at quoted market prices and exchange rates, if applicable. Generally, investments other than structured investment products are based on third-party quoted market prices. The Foundation obtains fair value measurements for structured investment products from reputable pricing services.

Purchases and sales of investments are reflected on a trade date basis. Gains and losses on the sale of securities are based on the difference between the sale price and the average historical cost basis for purchased securities or the fair market value at the date of receipt for securities received by donation.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Collection

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

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

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value, if donated. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Depreciation is calculated on the straight-line method over the following estimated useful lives:

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

Expenditures for major acquisitions and improvements are capitalized; expenditures for maintenance and repairs are expensed as incurred.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Income Taxes

The Foundation is a not-for-profit foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenses

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

Revenue Recognition

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

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

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended December 31, 2008, the Foundation received \$8,194 in contributed legal services. No contributed services were recognized in 2007.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Advertising Costs

Advertising costs, direct or nondirect, are expensed as incurred. Advertising costs for the year ended December 31, 2008 and 2007 were \$3,395 and \$2,393, respectively.

Reclassification

Certain amounts have been reclassified from prior presentations at December 31, 2007 to conform to classifications at December 31, 2008.

2. Fair Value Measurements

Effective January 1, 2008, the Foundation adopted Statement on Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS No. 157”), for financial assets and financial liabilities. In accordance with FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, the Foundation will delay application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009, except for those that are recognized or disclosed at fair value on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis. SFAS No. 157 defines fair value 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. SFAS No. 157 also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

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

The Chinati Foundation

Notes to Financial Statements

2. Fair Value Measures (continued)

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

The following table represents assets reported on the balance sheet at their fair value as of December 31, 2008 by level within the SFAS No. 157 fair value measurement hierarchy.

	Total Fair Value Measurement at December 31, 2008	Level 1	Level 2	Level 3
Measured on a recurring basis:				
Assets:				
Securities available for sale	\$5,216,947	\$5,021,777	\$195,170	\$ -

Investments in marketable securities and derivative instruments are classified within Level 2 of the valuation hierarchy, with the exception of certain Treasury bond and certain equity investment securities that are classified within Level 1. The Foundation obtains fair value measurements for investment securities and derivative instruments from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions, and other such data.

The Chinati Foundation

Notes to Financial Statements

3. Investments in Marketable Securities

Investments in marketable securities consist of the following:

	December 31,	
	<u>2008</u>	<u>2007</u>
United States Treasury notes	\$ 619,962	\$ 397,688
Corporate bonds	561,041	2,377,093
Corporate equities	3,550,533	6,196,367
Real estate securities	290,241	202,587
Other structured products	195,170	-
Foreign currency basket	-	100,197
	<u>\$ 5,216,947</u>	<u>\$ 9,273,932</u>

4. Endowment Pledges Receivable

Endowment pledges receivable is as follows:

	December 31,	
	<u>2008</u>	<u>2007</u>
Endowment pledges receivable	\$ 840,696	\$ 1,640,761
Less allowance for doubtful accounts	<u>-</u>	<u>(200,000)</u>
	<u>\$ 840,696</u>	<u>\$ 1,440,761</u>

In 2008, the Foundation wrote off endowment pledges receivable totaling \$400,000, of which \$200,000 reduced the allowance for doubtful accounts and \$200,000 was recorded as a reduction in permanently restricted contributions on the statement of activities and changes in net assets.

The Chinati Foundation

Notes to Financial Statements

4. Endowment Pledges Receivable (continued)

The endowment pledges are to be paid over future years as follows:

Year ending December 31,	
2009	\$ 319,536
2010	511,160
2011	<u>10,000</u>
	<u>\$ 840,696</u>

5. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	<u>2008</u>	<u>2007</u>
Land	\$ 236,487	\$ 236,487
Building and improvements	932,845	930,802
Furniture, fixtures, and equipment	267,174	197,205
Automobiles	<u>78,046</u>	<u>61,485</u>
	1,514,552	1,425,979
Less accumulated depreciation	<u>585,527</u>	<u>549,466</u>
Property and equipment – net	<u>\$ 929,025</u>	<u>\$ 876,513</u>

The Chinati Foundation

Notes to Financial Statements

6. Long-term Debt

Long-term debt consists of the following:

	December 31,	
	<u>2008</u>	<u>2007</u>
Note payable to Marfa National Bank; collateralized by land; due in monthly installments of \$375, including interest at prime (3.25% at December 31, 2008) plus 2.00%; due November 2010	\$ 7,120	\$ 10,590
Note payable to American Honda, bearing interest at 9.98%; collateralized by an automobile; due in monthly installments of \$342; due August 2013	15,255	-
Note payable to Marfa National Bank; collateralized by property; due in monthly installments of \$893, including interest adjusted annually to prime (3.25% at December 31, 2008) plus 1.00%; with the unpaid balance due November 2022	<u>86,362</u>	<u>90,009</u>
	<u>\$ 108,737</u>	<u>\$ 100,599</u>

Future maturities on long-term debt are as follows:

Year ending December 31,	
2009	\$ 10,351
2010	10,278
2011	7,377
2012	8,078
2013	7,331
Thereafter	<u>65,322</u>
	<u>\$ 108,737</u>

The Chinati Foundation

Notes to Financial Statements

7. Temporarily Restricted Net Assets

The Foundation's temporarily restricted net assets are available for the following purposes:

	December 31,	
	<u>2008</u>	<u>2007</u>
Concrete conservation	\$ 134,562	\$ 164,806
Collection handbook	45,000	-
Chamberlain symposium handbook	4,251	-
Children's art classes	1,000	-
Irwin project	25,000	-
Baertling exhibition	1,683	-
2009 members dinner	3,000	-
Judd symposium handbook	43,555	-
Endowment earnings	-	1,010,659
Future operations	<u>130,000</u>	<u>291,667</u>
	<u>\$ 388,051</u>	<u>\$ 1,467,132</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following components:

	December 31,	
	<u>2008</u>	<u>2007</u>
Endowment pledges receivable	\$ 840,696	\$ 1,440,761
Pledge of collection items	425,000	480,000
Original endowment corpus	<u>9,772,544</u>	<u>9,372,479</u>
	<u>\$ 11,038,240</u>	<u>\$ 11,293,240</u>

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

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

Interpretation of Relevant Law

The Board of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

The endowment net assets composition by type of fund as of December 31, 2008 and 2007 is comprised of the following:

	Years Ended December 31,	
	<u>2008</u>	<u>2007</u>
Donor-restricted:		
Permanently restricted endowment funds	\$ 9,772,544	\$ 9,372,479
Temporarily restricted endowment funds	-	1,010,659
Unrestricted endowment funds	<u>(2,683,404)</u>	<u>-</u>
	<u>\$ 7,089,140</u>	<u>\$ 10,383,138</u>

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

In the fiscal years ended December 31, 2008 and 2007, the Foundation had the following changes in endowment net assets:

	Years Ended December 31,	
	2008	2007
Investment return:		
Investment income	\$ 293,890	\$ 343,295
Net appreciation (depreciation)	(3,505,614)	380,577
Contributions to perpetual endowment	400,065	1,339,787
Amounts appropriated for expenditure	(402,400)	(210,443)
Investment fees	(79,939)	(72,657)
Total change in endowment funds	\$ (3,293,998)	\$ 1,780,559

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

	2008	2007
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	\$ 9,772,544	\$ 9,372,479
Total endowment funds classified as permanently restricted net assets	\$ 9,772,544	\$ 9,372,479
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA without purpose restrictions	\$ -	\$ 1,010,659
Total endowment funds classified as temporarily restricted net assets	\$ -	\$ 1,010,659

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$2,683,404 as of December 31, 2008.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s), as well as Board designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8-10% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year at a maximum 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered its long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 8-10% annually. This is consistent with the Foundations' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

The Chinati Foundation

Notes to Financial Statements

9. Supplementary Cash Flow Information

Cash paid for interest for 2008 and 2007 was \$12,155 and \$12,574, respectively.

Noncash Investing and Financing Activities

- Pledges receivable fulfilled with donated art totaled \$55,000 and \$78,000 in 2008 and 2007, respectively.
- During the year ended December 31, 2008, the Foundation financed the purchase of an automobile with a note payable of \$16,061.

10. Operating Lease Commitments

The Foundation leases equipment for \$587 per month. The lease expires on June 25, 2013.

Rent expense for the year ended December 31, 2008 was \$3,522. Future minimum operating lease payments are as follows:

Year ending December 31,	
2009	\$ 7,044
2010	7,044
2011	7,044
2012	7,044
2013	<u>3,522</u>
	<u>\$ 31,698</u>