

The Chinati Foundation

Financial Statements

December 31, 2010 and 2009

The Chinati Foundation

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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, 2010 and 2009, 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, 2010 and 2009, 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 LLP

Certified Public Accountants
September 16, 2011

The Chinati Foundation

Statements of Financial Position

December 31, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 271,526	\$ 451,865
Restricted cash	1,111,713	840,574
Investment in marketable securities	9,802,132	8,499,687
Receivables:		
Promises to give	280,000	350,000
Endowment	17,889	590,690
Grants	-	105,000
Other	35,796	28,577
Allowance for doubtful accounts	-	(264,225)
Inventory	288,015	188,077
Prepaid expenses	30,446	28,710
Property and equipment – net	888,638	914,447
Other assets	36,804	36,683
	<u>\$ 12,762,959</u>	<u>\$ 11,770,085</u>

Permanent Collection (note 1)

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 35,669	\$ 11,425
Accrued expenses	120,113	63,659
Long-term debt	88,567	95,711
	<u>244,349</u>	<u>170,795</u>

Net Assets

Unrestricted net assets	592,780	53,292
Temporarily restricted net assets	349,352	297,483
Permanently restricted net assets	11,576,478	11,248,515
	<u>12,518,610</u>	<u>11,599,290</u>
	<u>\$ 12,762,959</u>	<u>\$ 11,770,085</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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 559,351	\$ 349,090	\$ 137,775	\$ 1,046,216
Grants	54,300	88,100	-	142,400
Recovery of bad debt	5,000	-	260,188	265,188
Memberships	117,300	-	-	117,300
Museum store sales	143,687	-	-	143,687
Admissions	62,628	-	-	62,628
Dividends and interest	687	270,894	-	271,581
Realized and unrealized gain on securities	781,656	104,106	-	885,762
Other income	22,913	-	-	22,913
Net assets released from restrictions	760,321	(760,321)	-	-
Total revenues and other support	2,507,843	51,869	397,963	2,957,675
Functional expenses:				
Program	1,320,617	-	-	1,320,617
Administrative	359,326	-	-	359,326
Fundraising	288,412	-	-	288,412
Total functional expenses	1,968,355	-	-	1,968,355
Change in net assets before collection items not capitalized	539,488	51,869	397,963	989,320
Collection items purchased but not capitalized	-	-	70,000	70,000
Change in net assets	539,488	51,869	327,963	919,320
Net assets at beginning of year	53,292	297,483	11,248,515	11,599,290
Net assets at end of year	\$ 592,780	\$ 349,352	\$ 11,576,478	\$ 12,518,610

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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 790,092	\$ 58,027	\$ 285,275	\$ 1,133,394
Grants	10,500	250,085	-	260,585
Memberships	125,000	-	-	125,000
Museum store sales	67,795	-	-	67,795
Admissions	48,360	-	-	48,360
Dividends and interest	1,493	249,425	-	250,918
Realized and unrealized gain on securities	1,316,225	50,575	-	1,366,800
Other income	22,237	-	-	22,237
Net assets released from restrictions	698,680	(698,680)	-	-
Total revenues and other support	3,080,382	(90,568)	285,275	3,275,089
Functional expenses:				
Program	942,212	-	-	942,212
Administrative	485,445	-	-	485,445
Fundraising	254,585	-	-	254,585
Total functional expenses	1,682,242	-	-	1,682,242
Change in net assets before collection items not capitalized	1,398,140	(90,568)	285,275	1,592,847
Collection items purchased but not capitalized	-	-	75,000	75,000
Change in net assets	1,398,140	(90,568)	210,275	1,517,847
Net assets (deficit) at beginning of year	(1,344,848)	388,051	11,038,240	10,081,443
Net assets at end of year	\$ 53,292	\$ 297,483	\$ 11,248,515	\$ 11,599,290

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

The Chinati Foundation

Statement of Functional Expenses

Year Ended December 31, 2010

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 366	\$ -	\$ -	\$ 366
Art restoration	78,911	-	-	78,911
Automobiles	8,688	2,896	-	11,584
Bad debt expense	-	16	-	16
Bank fees	-	12,618	-	12,618
Commissions	26,601	-	-	26,601
Contract services	1,341	100	1,250	2,691
Depreciation	47,408	2,495	-	49,903
Development	-	-	70,905	70,905
Educational programs	68,734	-	-	68,734
Employee benefits	39,692	7,709	11,697	59,098
Events	61,131	-	-	61,131
Exhibits	105,411	-	-	105,411
Insurance	48,951	8,955	1,791	59,697
Interest expense	6,842	-	-	6,842
Maintenance	22,451	2,495	-	24,946
Merchandise cost	-	46,426	-	46,426
Miscellaneous	2,109	3,830	418	6,357
Office expense	31,604	9,231	5,319	46,154
Payroll tax	46,828	9,095	13,800	69,723
Postage	4,258	4,258	4,258	12,774
Printing	3,094	1,031	1,031	5,156
Professional fees	-	121,598	-	121,598
Property tax	-	2,010	-	2,010
Publications	40,133	-	-	40,133
Salaries	588,473	114,295	173,425	876,193
Telephone	4,518	4,518	4,518	13,554
Travel and entertainment	31,327	-	-	31,327
Utilities	51,746	5,750	-	57,496
Total expenses	\$ <u>1,320,617</u>	\$ <u>359,326</u>	\$ <u>288,412</u>	\$ <u>1,968,355</u>

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

The Chinati Foundation

Statement of Functional Expenses

Year Ended December 31, 2009

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ -	\$ 2,532	\$ -	\$ 2,532
Art restoration	141,816	-	-	141,816
Automobiles	8,923	2,974	-	11,897
Bad debt expense	-	10,420	-	10,420
Bank fees	-	6,529	-	6,529
Contract services	-	34,275	-	34,275
Depreciation	43,397	2,284	-	45,681
Development	-	-	19,351	19,351
Educational programs	56,326	-	-	56,326
Employee benefits	22,776	15,651	4,547	42,974
Events	49,063	-	-	49,063
Exhibits	54,862	-	-	54,862
Insurance	44,616	39,017	3,849	87,482
Interest expense	9,695	-	-	9,695
Maintenance	15,945	3,990	-	19,935
Merchandise cost	-	48,225	-	48,225
Miscellaneous	-	5,055	-	5,055
Office expense	-	26,558	-	26,558
Payroll tax	32,802	12,220	17,090	62,112
Postage	-	2,644	7,939	10,583
Printing	-	6,471	-	6,471
Professional fees	-	89,915	-	89,915
Property tax	-	2,298	-	2,298
Publications	31,042	-	-	31,042
Salaries	379,756	141,474	197,848	719,078
Telephone	3,961	3,961	3,961	11,883
Travel and entertainment	-	23,704	-	23,704
Utilities	47,232	5,248	-	52,480
	\$ 942,212	\$ 485,445	\$ 254,585	\$ 1,682,242
Total expenses	\$ 942,212	\$ 485,445	\$ 254,585	\$ 1,682,242

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

The Chinati Foundation

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 919,320	\$ 1,517,847
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,903	45,681
Realized and unrealized gain on securities	(885,762)	(1,366,800)
Allowance for pledges receivable	(264,225)	264,225
Loss on disposal of property and equipment	-	1,447
Changes in:		
Receivables	740,582	415,453
Inventory	(99,938)	3,658
Prepaid expenses	(1,736)	11,753
Other assets	(121)	(1,073)
Accounts payable	24,244	(25,095)
Accrued expenses	<u>56,454</u>	<u>(32,003)</u>
Net cash provided by operating activities	<u>538,721</u>	<u>835,093</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(24,094)	(32,550)
Change in restricted cash	(271,139)	1,251,339
Purchase of marketable securities	(2,707,941)	(4,983,754)
Proceeds from sale of marketable securities	<u>2,291,258</u>	<u>3,067,812</u>
Net cash used in investing activities	<u>(711,916)</u>	<u>(697,153)</u>
Cash Flows From Financing Activities – principal payments on long-term debt	<u>(7,144)</u>	<u>(13,025)</u>
Net cash used in financing activities	<u>(7,144)</u>	<u>(13,025)</u>
Net increase (decrease) in cash and cash equivalents	(180,339)	124,915
Cash and cash equivalents beginning of year	<u>451,865</u>	<u>326,950</u>
Cash and cash equivalents at end of year	<u>\$ 271,526</u>	<u>\$ 451,865</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 museum for contemporary and modern art, located in Marfa, Texas, created and founded by the late artist Donald Judd. Its mission is to present on a permanent basis, a selection of work by a limited number of distinguished artists, each work installed according to the artists’ specifications. What sets the Foundation apart from other art museums is the cohesive manner in which the art, architecture, and natural surrounding landscape contribute to the overall effect of the collection.

With initial funding from New York’s Dia Center for the Arts, the Foundation was first established as the Art Museum of the Pecos in the early 1980’s, but became independent of Dia, governed by an independent board of directors, and managed by a professional staff in 1986.

In addition to maintaining and preserving the permanent collection, the Foundation supports a broad range of educational programs that compliment the collection and regularly draw new visitors, as well as the community, to the museum. These include special exhibitions, artists in residence, university and college internships, student and family art classes and workshops, lectures and performances, and regular publications, including an annual newsletter that is widely circulated and includes scholarly essays, information about the collection, and a review of the Foundation’s program from the previous year. The museum keeps regular public hours and is supported by charitable contributions, grants, 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. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the “Board”).

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 fulfill donors’ restrictions, or as a result of expenditures that have been charged to temporarily restricted assets. When temporarily restricted net

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Basis of Presentation (continued)

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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. 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, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying financial statements.

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 years ended December 31, 2010 and 2009, the Foundation received \$11,578 and \$5,296 in contributed legal services and \$0 and \$15,000 in contributed web design/technology services.

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 indirect, are expensed as incurred. Advertising costs for the year ended December 31, 2010 and 2009 were \$366 and \$2,532, respectively.

Reclassification

Certain amounts have been reclassified from prior presentations at December 31, 2009 to conform to classifications at December 31, 2010.

2. Fair Value Measurements

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification, apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported 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. *Fair Value Measurements and Disclosures* 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.

At December 31, 2010 and 2009, all investments were classified as Level 1.

The fair value of the Foundation's cash and cash equivalents, receivables, prepaid expenses, other assets, payables, and accrued expenses approximates the carrying amounts of such instruments due to their short maturity. The fair value of the debt approximates the carrying amount because the rate and terms currently available to the Foundation approximate the rate and terms on the existing debt.

The Chinati Foundation

Notes to Financial Statements

3. Investments in Marketable Securities

Investments in marketable securities consist of the following:

	December 31,	
	<u>2010</u>	<u>2009</u>
United States Treasury notes	\$ 2,068,673	\$ 2,057,393
Corporate bonds	631,366	533,901
Corporate equities	6,513,635	5,643,260
Real estate securities	<u>588,459</u>	<u>265,134</u>
	<u>\$ 9,802,132</u>	<u>\$ 8,499,687</u>

4. Endowment Pledges Receivable

Endowment pledges receivable is as follows:

	December 31,	
	<u>2010</u>	<u>2009</u>
Endowment pledges receivable	\$ 17,889	\$ 590,690
Less allowance for doubtful accounts	<u>-</u>	<u>(259,225)</u>
	<u>\$ 17,889</u>	<u>\$ 331,465</u>

In 2009, the Foundation established a reserve against endowment pledges receivable totaling \$259,225.

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

Year ending December 31, 2011	<u>\$ 17,889</u>
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The Chinati Foundation

Notes to Financial Statements

5. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	<u>2010</u>	<u>2009</u>
Land	\$ 236,487	\$ 236,487
Building and improvements	948,751	932,845
Furniture, fixtures, and equipment	296,761	288,573
Automobiles	<u>59,209</u>	<u>59,209</u>
	1,541,208	1,517,114
Less accumulated depreciation	<u>652,570</u>	<u>602,667</u>
Property and equipment – net	<u>\$ 888,638</u>	<u>\$ 914,447</u>

6. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	<u>2010</u>	<u>2009</u>
Note payable to American Honda, bearing interest at 9.98%; collateralized by an automobile; due in monthly installments of \$342; due August 2013	\$ 9,311	\$ 12,323
Note payable to Marfa National Bank; collateralized by property; due in monthly installments of \$818, including interest adjusted annually to prime (3.25% at December 31, 2010) plus 1.00%; with the unpaid balance due November 2022	<u>79,256</u>	<u>83,388</u>
	<u>\$ 88,567</u>	<u>\$ 95,711</u>

The Chinati Foundation

Notes to Financial Statements

6. Long-Term Debt (continued)

Future maturities on long-term debt are as follows:

Year ending December 31,	
2011	\$ 7,377
2012	8,078
2013	7,331
2014	5,242
2015	5,705
2016-2020	35,922
2021-2022	<u>18,912</u>
	<u>\$ 88,567</u>

7. Temporarily Restricted Net Assets

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

	December 31,	
	<u>2010</u>	<u>2009</u>
Planning for Robert Irwin Installation	\$ 190,382	\$ 48,929
Future operations	100,000	200,000
Conservation	45,870	5,000
Compensation	6,100	-
Children's art classes	3,750	2,000
Marketing	2,000	-
Community Day Program	1,250	-
Collection handbook	<u>-</u>	<u>41,554</u>
	<u>\$ 349,352</u>	<u>\$ 297,483</u>

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following components:

	December 31,	
	<u>2010</u>	<u>2009</u>
Endowment pledges receivable – net of allowance for doubtful accounts of \$0 (\$259,225 in 2009)	\$ 17,889	\$ 331,465
Pledge of collection items	280,000	350,000
Original endowment corpus	<u>11,278,589</u>	<u>10,567,050</u>
	<u>\$ 11,576,478</u>	<u>\$ 11,248,515</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, up to 5% of the total corpus is available to be transferred to unrestricted funds on an annual basis.

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

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

Interpretation of Relevant Law (continued)

- (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, 2010 and 2009 is comprised of the following:

	Years Ended December 31,	
	2010	2009
Donor-restricted:		
Permanently restricted endowment funds	\$ 11,278,589	\$ 10,567,050
Temporarily restricted endowment funds	-	-
Unrestricted endowment funds	(714,095)	(1,419,272)
	\$ 10,564,494	\$ 9,147,778

In the fiscal years ended December 31, 2010 and 2009, the Foundation had the following changes in endowment net assets:

	Years Ended December 31,	
	2010	2009
Investment return:		
Investment income	\$ 270,894	\$ 249,425
Net appreciation	885,762	1,366,800
Contributions to perpetual endowment	711,540	794,506
Amounts appropriated for expenditure	(400,000)	(300,000)
Investment fees	(51,480)	(52,093)
Total change in endowment funds	\$ 1,416,716	\$ 2,058,638

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

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

	<u>2010</u>	<u>2009</u>
Permanently Restricted Net Assets		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	\$ <u>11,278,589</u>	\$ <u>10,567,050</u>
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA without purpose restrictions	\$ <u>-</u>	\$ <u>-</u>

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 are reported in unrestricted net assets and were \$714,095 and \$1,419,272 as of December 31, 2010 and 2009.

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. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6+% annually. Actual returns in any given year may vary from this amount.

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

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 6+% 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.

9. Supplementary Cash Flow Information

Cash paid for interest for 2010 and 2009 was \$6,842 and \$9,695, respectively.

Noncash Investing and Financing Activities

Pledges receivable fulfilled with donated art totaled \$70,000 and \$75,000 in 2010 and 2009, respectively.

The Chinati Foundation

Notes to Financial Statements

10. Operating Lease Commitments

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

Rent expense for each of the years ended December 31, 2010 and 2009 was \$7,038. Future minimum operating lease payments are as follows:

Year ending December 31,	
2011	\$ 7,044
2012	7,044
2013	<u>3,522</u>
	<u>\$ 17,610</u>

11. Transfer of Assets

Since its incorporation in 1982, Austin Street Foundation, a Texas nonprofit corporation, (the "Corporation") owned and held title to various works of art. Certain of those works of art had been lent by the Corporation to the Foundation for exhibition and to assist the Foundation in fulfilling its charitable purposes. Effective June 9, 2009, the Members and Trustees of the Corporation consented to and adopted a Plan of Distribution and Dissolution of the Corporation. All property and assets remaining on hand in the Corporation's name, after making provisions of the payment and discharge of all debts and liabilities, were distributed to the Foundation for addition to its permanent collection. In accordance with the accounting principles generally followed by art museums and the Foundation's policy (see note 1), the value of the aforementioned additions to the collection has been excluded from the statements of financial position.