

The Chinati Foundation

Financial Statements
and Supplementary Information

December 31, 2011 and 2010

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, 2011 and 2010, and the related statements of activities and changes in net assets 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Foundation restated beginning net assets as of December 31, 2010; therefore, the January 1, 2010 opening balances have been restated to reflect this change.

We also audited the adjustments described in Note 11 that were applied to restate the December 31, 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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

Certified Public Accountants
October 15, 2012

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The Chinati Foundation

Statements of Financial Position

December 31, 2011 and 2010

	Assets	
	2011	2010
Cash and cash equivalents	\$ 314,316	\$ 271,526
Restricted cash	1,178,591	1,111,713
Investment in marketable securities	10,566,958	9,802,132
Receivables:		
Promises to give	110,000	70,000
Endowment	-	17,889
Grants	2,500	-
Other	53,991	35,796
Inventory	260,393	288,015
Prepaid expenses	32,914	30,446
Property and equipment – net	852,526	888,638
Other assets	117,443	36,804
	\$ 13,489,632	\$ 12,552,959

Permanent Collection (Note 1)

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 31,715	\$ 35,669
Accrued expenses	69,991	120,113
Long-term debt	80,802	88,567
	182,508	244,349

Net Assets

Unrestricted net assets	91,532	592,780
Temporarily restricted net assets	206,170	349,352
Permanently restricted net assets	13,009,422	11,366,478
	13,307,124	12,308,610
	\$ 13,489,632	\$ 12,552,959

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, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Contributions	\$ 698,953	\$ 142,115	\$ 1,712,944	\$ 2,554,012
Grants	158,125	124,370	-	282,495
Memberships	111,338	-	-	111,338
Museum store sales	111,518	-	-	111,518
Admissions	111,996	-	-	111,996
Dividends and interest	603	413,984	-	414,587
Realized and unrealized gain (loss) on securities	(577,172)	26,016	-	(551,156)
Other income	70,855	-	-	70,855
Net assets released from restrictions	<u>849,667</u>	<u>(849,667)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,535,883</u>	<u>(143,182)</u>	<u>1,712,944</u>	<u>3,105,645</u>
Functional expenses:				
Program services	1,200,621	-	-	1,200,621
Supporting services:				
Administrative	539,252	-	-	539,252
Fundraising	<u>297,258</u>	<u>-</u>	<u>-</u>	<u>297,258</u>
Total functional expenses	<u>2,037,131</u>	<u>-</u>	<u>-</u>	<u>2,037,131</u>
Change in net assets before collection items not capitalized	(501,248)	(143,182)	1,712,944	1,068,514
Collection items purchased, but not capitalized	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>70,000</u>
Change in net assets	(501,248)	(143,182)	1,642,944	998,514
Net assets at beginning of year	<u>592,780</u>	<u>349,352</u>	<u>11,366,478</u>	<u>12,308,610</u>
Net assets at end of year	<u>\$ 91,532</u>	<u>\$ 206,170</u>	<u>\$ 13,009,422</u>	<u>\$ 13,307,124</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	\$ 207,775	\$ 1,116,216
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	<u>760,321</u>	<u>(760,321)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,507,843</u>	<u>51,869</u>	<u>467,963</u>	<u>3,027,675</u>
Functional expenses:				
Program services	1,320,617	-	-	1,320,617
Supporting services:				
Administrative	359,326	-	-	359,326
Fundraising	<u>288,412</u>	<u>-</u>	<u>-</u>	<u>288,412</u>
Total functional expenses	<u>1,968,355</u>	<u>-</u>	<u>-</u>	<u>1,968,355</u>
Change in net assets before collection items not capitalized	539,488	51,869	467,963	1,059,320
Collection items purchased, but not capitalized	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>70,000</u>
Change in net assets	<u>539,488</u>	<u>51,869</u>	<u>397,963</u>	<u>989,320</u>
Net assets at beginning of year – as previously reported	53,292	297,483	11,248,515	11,599,290
Prior period adjustment (Note 11)	<u>-</u>	<u>-</u>	<u>(280,000)</u>	<u>(280,000)</u>
Net assets at beginning of year – as restated	<u>53,292</u>	<u>297,483</u>	<u>10,968,515</u>	<u>11,319,290</u>
Net assets at end of year	<u>\$ 592,780</u>	<u>\$ 349,352</u>	<u>\$ 11,366,478</u>	<u>\$ 12,308,610</u>

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

The Chinati Foundation

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 998,514	\$ 989,320
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,175	49,903
Realized and unrealized (gain) loss on securities	551,156	(885,762)
Allowance for pledges receivable	-	(264,225)
Gain on disposal of property and equipment	(1,397)	-
Changes in:		
Receivables	(42,806)	670,582
Inventory	27,622	(99,938)
Prepaid expenses	(2,468)	(1,736)
Other assets	(80,639)	(121)
Accounts payable	(3,954)	24,244
Accrued expenses	(50,122)	56,454
Net cash provided by operating activities	<u>1,445,081</u>	<u>538,721</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(13,665)	(24,094)
Proceeds from sale of property and equipment	2,000	-
Change in restricted cash	(66,878)	(271,139)
Purchase of marketable securities	(3,704,861)	(2,707,941)
Proceeds from sale of marketable securities	<u>2,388,878</u>	<u>2,291,258</u>
Net cash used in investing activities	<u>(1,394,526)</u>	<u>(711,916)</u>

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

The Chinati Foundation

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

(Continued)

	<u>2011</u>	<u>2010</u>
Cash Flows From Financing Activities – principal payments on long-term debt	\$ <u>(7,765)</u>	\$ <u>(7,144)</u>
Net cash used in financing activities	<u>(7,765)</u>	<u>(7,144)</u>
Net increase (decrease) in cash and cash equivalents	42,790	(180,339)
Cash and cash equivalents beginning of year	<u>271,526</u>	<u>451,865</u>
Cash and cash equivalents at end of year	<u>\$ 314,316</u>	<u>\$ 271,526</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	\$ <u>6,172</u>	\$ <u>6,842</u>
Supplemental Disclosures of Noncash Flow Information		
Pledge receivable satisfied with donated art	\$ <u>70,000</u>	\$ <u>70,000</u>

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 1980s, 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 Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Basis of Presentation

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 assets are released from restrictions, they are transferred to unrestricted net assets and shown as net assets released from restrictions in the statements of activities and changes in net assets. Transfers from 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 to be maintained in perpetuity usually for the purpose of generating investment income to fund annual operations.

Use of Estimates

The preparation of financial statements in conformity 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.

Cash and Cash Equivalents

For purposes of the statements 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 Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

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 Foundation has an investment policy that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

Permanent 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.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

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:

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

Expenditures for major acquisitions and improvements over \$500 are capitalized. Expenditures for maintenance and repairs, that do not extend the useful life of the asset, are expensed as incurred.

Impairment of Long-Lived Assets

The Foundation reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Foundation did not recognize an impairment loss during the years ended December 31, 2011 and 2010.

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.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Income Taxes (continued)

The Foundation's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At December 31, 2011 and 2010, no interest or penalties have been or are required to be accrued. The Foundation, generally, is no longer subject to income tax examinations by federal authorities for years prior to December 31, 2008.

Functional Allocation of Expenses

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

Advertising Costs

Advertising costs, direct or indirect, are expensed as incurred. Advertising costs for the years ended December 31, 2011 and 2010 totaled \$3,242 and \$366, respectively.

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 restrictions.

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, 2011 and 2010, the Foundation received \$0 and \$11,578 in contributed legal services, respectively.

The Chinati Foundation

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Foundation, but which will only be resolved when one or more future events occur or fail to occur. The Foundation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Foundation or unasserted claims that may result in such proceedings, the Foundation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Foundation's financial statements.

If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Subsequent Events

The Foundation has evaluated subsequent events through October 15, 2012, the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation.

The Chinati Foundation

Notes to Financial Statements

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.

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.

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 Chinati Foundation

Notes to Financial Statements

2. Fair Value Measurements and Disclosures (continued)

The following table represents assets measured at fair value on a recurring basis as reported on the statements of financial position as of December 31, 2011 and 2010 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at December 31, 2011	Level 1	Level 2	Level 3
Assets measured on a recurring basis – managed accounts:				
Equity	\$ 6,724,325	\$ 6,724,325	\$ -	\$ -
Fixed income	3,795,712	3,795,712	-	-
Commodities	46,921	-	46,921	-
	<u>\$ 10,566,958</u>	<u>\$ 10,520,037</u>	<u>\$ 46,921</u>	<u>\$ -</u>
	Total Fair Value Measurement at December 31, 2010	Level 1	Level 2	Level 3
Assets measured on a recurring basis – managed accounts:				
Equity	\$ 7,102,094	\$ 7,102,094	\$ -	\$ -
Fixed Income	2,700,038	2,700,038	-	-
	<u>\$ 9,802,132</u>	<u>\$ 9,802,132</u>	<u>\$ -</u>	<u>\$ -</u>

Treasury bonds, corporate bonds, and equity investment securities are classified within Level 1. Commodities investments are classified within Level 2. The Foundation obtains fair value measurements for investment securities and commodity investments from reputable pricing services.

The Chinati Foundation

Notes to Financial Statements

3. Investments in Marketable Securities

Investments in marketable securities consist of the following:

	December 31,	
	2011	2010
Investment grade fixed income	\$ 2,758,612	\$ 2,122,968
Other fixed income	1,037,100	577,070
United States equity	4,674,998	4,555,980
Non-United States equity	2,049,327	2,546,114
Commodities	46,921	-
	<u>\$ 10,566,958</u>	<u>\$ 9,802,132</u>

4. Endowment Pledges Receivable

Endowment pledges receivable is as follows:

	December 31,	
	2011	2010
Endowment pledges receivable	\$ -	\$ 17,889
Less allowance for doubtful accounts	-	-
	<u>\$ -</u>	<u>\$ 17,889</u>

5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2011	2010
Land	\$ 236,487	\$ 236,487
Buildings and improvements	948,751	948,751
Furniture, fixtures, and equipment	286,149	296,761
Automobiles	54,709	59,209
	<u>1,526,096</u>	<u>1,541,208</u>
Less accumulated depreciation	<u>673,570</u>	<u>652,570</u>
Property and equipment – net	<u>\$ 852,526</u>	<u>\$ 888,638</u>

The Chinati Foundation

Notes to Financial Statements

6. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	<u>2011</u>	<u>2010</u>
Note payable to American Honda, bearing interest at 9.98%; collateralized by an automobile; due in monthly installments of \$342; due August 2013	\$ 5,976	\$ 9,311
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, 2011) plus 1.00%, with a floor of 7%; due November 2022	<u>74,826</u>	<u>79,256</u>
	<u>\$ 80,802</u>	<u>\$ 88,567</u>

Future maturities on long-term debt are as follows:

Year ending December 31,	
2012	\$ 8,360
2013	7,409
2014	5,442
2015	5,835
2016	6,246
2017-2022	<u>47,510</u>
	<u>\$ 80,802</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>2011</u>	2010
Planning for Robert Irwin installation	\$ 138,991	\$ 190,382
Future operations	-	100,000
Conservation	64,679	45,870
Compensation	-	6,100
Children's art classes	2,500	3,750
Marketing	-	2,000
Community Day Program	-	1,250
	<u>\$ 206,170</u>	<u>\$ 349,352</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following components:

	December 31,	
	<u>2011</u>	2010
Endowment pledges receivable	\$ -	\$ 17,889
Pledge of collection items	90,000	70,000
Original endowment corpus	<u>12,919,422</u>	<u>11,278,589</u>
	<u>\$ 13,009,422</u>	<u>\$ 11,366,478</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

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

Interpretation of Relevant Law (continued)

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:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The endowment net assets composition by type of fund is comprised of the following:

	Years Ended December 31,	
	<u>2011</u>	<u>2010</u>
Donor-restricted:		
Permanently restricted endowment funds	\$ 12,919,422	\$ 11,278,589
Temporarily restricted endowment funds	-	-
Unrestricted endowment funds	<u>(1,351,669)</u>	<u>(714,095)</u>
	<u>\$ 11,567,753</u>	<u>\$ 10,564,494</u>

The Chinati Foundation

Notes to Financial Statements

8. Permanently Restricted Net Assets (continued)

Interpretation of Relevant Law (continued)

The Foundation had the following changes in endowment net assets:

	Years Ended December 31,	
	2011	2010
Investment return:		
Investment income	\$ 413,984	\$ 270,894
Net appreciation (depreciation)	(551,156)	885,762
Contributions to perpetual endowment	1,640,833	711,540
Amounts appropriated for expenditure	(440,000)	(400,000)
Investment fees	<u>(60,402)</u>	<u>(51,480)</u>
Total change in endowment funds	<u>\$ 1,003,259</u>	<u>\$ 1,416,716</u>

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

	December 31,	
	2011	2010
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>\$ 12,919,422</u>	<u>\$ 11,278,589</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>

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 GAAP, deficiencies of this nature are reported in unrestricted net assets and totaled \$1,351,669 and \$714,095 as of December 31, 2011 and 2010.

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.

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 the Spending Policy

The Foundation has a policy of appropriating for distribution each year at a maximum 5% 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.

The Chinati Foundation

Notes to Financial Statements

9. Operating Lease Commitments

Rent expense for the years ended December 31, 2011 and 2010 totaled \$12,088 and \$7,039, respectively. Future minimum operating lease payments are as follows:

Year ending December 31,	
2012	\$ 9,072
2013	5,550
2014	2,028
2015	<u>507</u>
	<u>\$ 17,157</u>

10. Concentrations and Credit Risk

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.

For the year ended December 31, 2011, two donors accounted for 52% of the Foundation's total revenue; no significant donors as December 31, 2010. The donations were a one-time gift to the endowment and are permanently restricted in nature.

11. Prior Period Adjustment

On July 30, 2012, the Foundation received a letter from a donor exercising his right to rescind the pledge of the final painting included in a deed of gift executed January 18, 2006 by the same donor. After further review by management, it was noted the original deed of gift included a provision not previously noted by management where the donor could withdraw any painting from the agreement by written notice to the Foundation before January 1 of each year the Foundation was to recognize each painting as permanent contribution. Due to the condition noted, an adjustment was necessary to correct the promise to give amount recognized as receivable prior to December 31, 2010. As of December 31, 2010, an adjustment was made to reduce beginning permanently restricted net assets by \$280,000, decrease promise to give by \$210,000, and increase permanently restricted contribution by \$70,000.

Supplementary Information

Independent Auditors' Report on Supplementary Information

To the Board of Directors
The Chinati Foundation
Marfa, Texas

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Certified Public Accountants
October 15, 2012

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The Chinati Foundation

Schedule of Functional Expenses

Year Ended December 31, 2011

	Program Services	Supporting Services		Total
		Administrative	Fundraising	
Advertising	\$ 2,417	\$ -	\$ 825	\$ 3,242
Art restoration	46,572	-	-	46,572
Automobiles	7,531	1,883	-	9,414
Bank fees	-	13,721	-	13,721
Contract services	30,471	4,606	6,698	41,775
Depreciation	46,716	2,459	-	49,175
Development	-	-	11,743	11,743
Educational programs	60,573	-	-	60,573
Employee benefits	-	69,971	-	69,971
Events	64,201	-	-	64,201
Exhibits	76,600	-	-	76,600
Insurance	50,970	9,557	3,186	63,713
Interest	6,172	-	-	6,172
Maintenance	18,950	4,737	-	23,687
Merchandise cost	-	60,683	-	60,683
Miscellaneous	4,279	7,983	-	12,262
Office expense	164	33,204	-	33,368
Payroll tax	43,255	14,025	14,541	71,821
Postage	-	6,673	11,514	18,187
Printing	236	6,302	18,721	25,259
Professional fees	44,544	105,940	-	150,484
Property tax	-	1,988	-	1,988
Publications	38,941	-	-	38,941
Salaries	566,066	187,235	190,299	943,600
Telephone	11,840	2,537	2,537	16,914
Travel and entertainment	28,387	-	37,194	65,581
Utilities	51,736	5,748	-	57,484
	\$ 1,200,621	\$ 539,252	\$ 297,258	\$ 2,037,131

See independent auditors' report on supplementary information.

The Chinati Foundation

Schedule 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	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
	<u>\$ 1,320,617</u>	<u>\$ 359,326</u>	<u>\$ 288,412</u>	<u>\$ 1,968,355</u>

See independent auditors' report on supplementary information.