

LINDA PACE FOUNDATION

Audited Financial Statements

December 31, 2008

AKIN, DOHERTY, KLEIN & FEUGE, P.C.
Certified Public Accountants

LINDA PACE FOUNDATION
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Thomas A. Akin
David J. Doherty
Howard H. Klein, Jr.
Joseph V. Feuge, II
Scott C. Kopecky
Joseph A. Hernandez

Certified Public Accountants

Registered with AICPA and
Public Company Accounting
Oversight Board


REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Linda Pace Foundation
San Antonio, Texas

We have audited the accompanying statement of financial position - modified cash basis of Linda Pace Foundation as of December 31, 2008, and the related statement of activities - modified cash basis for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements are presented on the modified cash basis of accounting, which is an other comprehensive basis of accounting.

We conducted our audit in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - modified cash basis of Linda Pace Foundation as of December 31, 2008, and its activities - modified cash basis for the year then ended, in conformity with the modified cash basis of accounting.


Akin, Doherty, Klein & Feuge, P.C.
San Antonio, Texas
June 26, 2009

LINDA PACE FOUNDATION
Statement of Financial Position - Modified Cash Basis
December 31, 2008

ASSETS

Current Assets:

Cash	\$ 37,699
Short-term investments, CHRISpark	268,014
Recoverable excise taxes	20,000
Prepaid UBIT income taxes	21,750
Total current assets	<u>347,463</u>

Investment Securities:

Cash equivalents	2,892,731
Fixed income	2,006,478
Domestic equities	11,821,831
International equities	5,311,123
Alternative investments	6,235,038
Total investment securities	<u>28,267,201</u>

Property and Equipment:

Land	42,500
Improvements	389,546
Furniture and equipment	78,411
Total property and equipment	<u>510,457</u>
Less accumulated depreciation	<u>(20,713)</u>
Net property and equipment	489,744

Exempt Purpose Assets:

CHRISpark, net of accumulated depreciation	1,353,145
Art collection	19,883,327
Land and improvements, net of accumulated depreciation	1,465,075
Total exempt purpose assets	<u>22,701,547</u>

Other Assets, 130 Shreiner Place

67,938

Total Assets

\$ 51,873,893

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 731
Total current liabilities	<u>731</u>

Net Assets, Unrestricted

51,873,162

Total Liabilities and Net Assets

\$ 51,873,893

See notes to audited financial statements.

LINDA PACE FOUNDATION
Statement of Activities - Modified Cash Basis
Year Ended December 31, 2008

Support and Revenues

Contributions:	
Pace 2005 CLAT	\$ 1,050,000
Linda Pace Estate	4,747,296
Others	19,950
Investment earnings:	
Realized gains (losses)	(6,274,378)
Unrealized gains (losses)	(8,635,351)
Interest income	1,787
Dividend income	482,527
Partnership distributions	689,074
Partnership capital calls	(272,728)
Loss on destroyed artwork	(3,000)
Total support and revenues	<u>(8,194,823)</u>

Expenses

Grants:	
Artpace	1,030,000
Others	17,000
Trustee meeting fees and retainers	93,782
Management and general	717,633
Investment manager fees and charges	304,809
CHRISpark operations, net	97,992
Total expenses	<u>2,261,216</u>

Change in Net Assets (10,456,039)

Net assets at beginning of year 62,329,201

Net Assets at Year End \$ 51,873,162

See notes to audited financial statements.

LINDA PACE FOUNDATION
Notes to Audited Financial Statements
December 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities: The Linda Pace Foundation (“Foundation”) is a non-profit organization established by Linda Pace in April 2003 to manage her art collection and to promote the production and display of contemporary art in Texas and beyond through grants and other support.

The Foundation is committed to the charitable vision of its founder. Guided by the donor’s conviction that contemporary art is essential to a dynamic society, the Foundation fosters the creation, presentation, and understanding of innovative expression through contemporary art.

The Foundation maintains CHRISpark, which is a one-acre public park located at 111 Camp Street, just south of downtown San Antonio, Texas. The park features lush foliage, inviting walkways, areas of repose, sites of play and encounters with contemporary art. The park opened in 2005 and celebrates the life of Linda’s son, Chris, with examples of nature’s beauty and artistic moments.

Basis of Presentation: The accompanying financial statements have been prepared on a modified cash basis of accounting, which is an other comprehensive basis of accounting. Investments are stated at fair market value. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Assets restricted solely through actions of the Foundation's Trustees are reported as unrestricted net assets.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation does not have any temporarily restricted net assets.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. The Foundation does not have any permanently restricted assets.

Sources of Revenue: The Foundation currently receives an annual contribution from the Pace 2005 Charitable Lead Annuity Trust (CLAT). In addition to this contribution, the Foundation receives contributions from the Linda Pace Estate. All other sources of revenue are investment related.

Cash and Cash Equivalents: Cash consists of cash-on-hand and money market funds.

Investment Securities: The Foundation reports its investment securities at fair value. See Note C.

Property and Equipment: Property and equipment is stated at historical cost or estimated fair value at date of donation. Expenditures for betterments that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related asset (generally three to five years for furniture, equipment and vehicles, and 15 to 30 years for buildings and improvements).

LINDA PACE FOUNDATION
Notes to Audited Financial Statements
December 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CHRISpark: CHRISpark is stated at historical cost, if purchased, or estimated fair market value at time of transfer/donation to the Foundation. Depreciation on park improvements is provided over the estimated useful lives of the related assets. Accumulated depreciation totaled approximately \$174,000 at December 31, 2008.

Art Collection: The Foundation's art collection is stated at fair market value, as estimated by Christie's Appraisals, Inc. on May 28, 2008.

Land and Improvements, Exempt Purpose Assets: Other land and improvements are stated at historical cost, if purchased, or estimated fair market value at time of transfer/donation to the Foundation. Depreciation is provided over the estimated useful lives of the related assets. Accumulated depreciation totaled \$12,240 at December 31, 2008.

Income Taxes: Linda Pace Foundation is a non-profit organization exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been determined by the Internal Revenue Service to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Foundation is not subject to Texas margin tax.

Benefit Plan: The Foundation has adopted a 401(k) plan which covers full-time employees. Participants may contribute to the Plan amounts as allowed by the Internal Revenue Code. The Foundation may make a matching contribution as determined by its Board of Trustees. The Foundation contributed \$17,269 to the Plan in 2008.

Concentrations of Credit Risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of its investment securities. The Foundation utilizes the services of nationally recognized investment managers to facilitate the management of its investments and to mitigate its risk. The Foundation Trustees review the investment portfolio position on a monthly basis.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – FOUNDATION INVESTMENT MANAGER AND INVESTMENT SECURITIES

During 2008, Goldman Sachs and Adams Street Partners were the investment managers for all the Foundation investments. The investment manager is responsible for the physical custody of assets, and makes investment decisions subject to review by the Trustees. In April 2009, the Foundation elected to replace Goldman Sachs with UBS, after the investment management team at Goldman Sachs departed to UBS.

The Foundation's By-Laws require that its Board consist of not less than three and not more than five Trustees. The Trustees of the Foundation as of December 31, 2008 are as follows:

Rick Moore
Kathryn Kanjo
Dennis Scholl
Jan Jarboe Russell
Ann Hodges Morgan

LINDA PACE FOUNDATION
Notes to Audited Financial Statements
December 31, 2008

NOTE C - FAIR VALUE MEASUREMENTS

The Foundation follows SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The Statement established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2008:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Money market funds	\$ 2,892,731	\$ -	\$ -
Fixed income funds	2,006,478	-	-
Domestic equity	11,821,831	-	-
International equities	5,311,123	-	-
Alternative investments	-	-	6,235,038
	<u> </u>	<u> </u>	<u> </u>
Total investment securities at fair value	<u>\$ 22,032,163</u>	<u>\$ -</u>	<u>\$ 6,235,038</u>

The alternative investments consist primarily of various limited partnerships managed by Goldman Sachs and Adams Street Partners in which the Foundation has minor ownership interests. A rollforward of the Level 3 alternative investments, with respect to realized and unrealized gains and losses, purchases, sales and settlements, is not available.