Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2009 and 2008
and Report of Independent Accountants

PORTLAND ART MUSEUM

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Report of the Treasurer

The financial statements and other information contained in this report have been prepared by management, which is responsible for the information's integrity and objectivity. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and are deemed to present fairly the financial position of the PORTLAND ART MUSEUM and the changes in its net assets and cash flows. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

As a means of fulfilling its responsibility for the integrity of financial information included in this report, management relies on a system of internal controls established to ensure, within reasonable limits, that assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and executed in accordance with management's authorization, and that the accounting records can be relied upon to prepare financial statements in accordance with generally accepted accounting principles. This system is augmented by careful selection and training of qualified personnel and the dissemination of written policies and procedures.

The financial statements have been examined by the Museum's independent accountants, GARY MCGEE & CO., whose report follows. Their examinations were made in accordance with generally accepted auditing standards. The Board of Trustees meets periodically with management and the independent accountants to review accounting, auditing, internal accounting controls, and financial reporting matters, and to ensure that all responsibilities are fulfilled with regard to the objectivity and integrity of the Museum's financial statements. The Board of Trustees also reviews the scope and results of the Museum's audit, and current and emerging accounting and financial requirements and practices affecting the Museum.

Patricia M. Gianelli
Treasurer
Board of Trustees
Portland Art Museum

GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Portland Art Museum:

We have audited the accompanying statements of financial position of the Portland Art Museum as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Portland Art Museum'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. 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 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 Portland Art Museum'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 Portland Art Museum as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Gary McGee & Co.

October 7, 2009

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PORTLAND ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Assets:					
Cash and cash equivalents *(note 6)*	$ 2,267,277	1,974,895	1,391,013	5,633,185	7,118,517
Accounts receivable *(note 4)*	232,725	–	–	232,725	602,586
Pledges receivable *(note 5)*	4,203,647	490,636	5,060,403	9,754,686	12,559,596
Inventories and prepayments	364,440	3,000	–	367,440	417,881
Other assets	604,550	32,282	–	636,832	636,360
Investments, at market value *(note 6)*	7,479,782	2,421,652	24,109,353	34,010,787	43,348,171
Beneficial interest in perpetual trusts *(note 7)*	–	–	954,406	954,406	–
Real estate investments, at cost *(notes 11 and 16)*	4,837,854	–	–	4,837,854	4,837,854
Property and equipment *(note 8)*	60,303,104	–	–	60,303,104	61,807,145
Total assets	$ 80,293,379	4,922,465	31,515,175	116,731,019	131,328,110
Liabilities:					
Accounts payable and accrued expenses	683,384	16,500	–	699,884	900,844
Accrued payroll and related expenses	548,350	–	–	548,350	380,507
Deferred revenues *(note 10)*	362,740	–	–	362,740	512,205
Other liabilities *(note 11)*	345,533	–	–	345,533	–
Notes payable *(note 11)*	11,346,174	–	–	11,346,174	15,807,157
Due to (from) other funds	(889,618)	756,361	133,257	–	–
Total liabilities	12,396,563	772,861	133,257	13,302,681	17,600,713
Net assets:					
Unrestricted:					
Available for programs and general operations	6,843,390	–	–	6,843,390	10,379,234
Designated by the Board of Trustees *(note 12)*	11,380,171	–	–	11,380,171	17,537,848
Cumulative endowment losses *(note 12)*	(4,121,529)	–	–	(4,121,529)	–
Net investment in capital assets and real estate investments	53,794,784	–	–	53,794,784	50,837,842
Total unrestricted	67,896,816	–	–	67,896,816	78,754,924
Temporarily restricted *(note 12)*	–	4,149,604	–	4,149,604	5,655,748
Permanently restricted for endowment *(note 12)*	–	–	31,381,918	31,381,918	29,316,725
Total net assets	67,896,816	4,149,604	31,381,918	103,428,338	113,727,397
Commitments and contingencies *(notes 6, 11, 14, 16, 17, and 18)*					
Total liabilities and net assets	$ 80,293,379	4,922,465	31,515,175	116,731,019	131,328,110

See accompanying notes to financial statements.

PORTLAND ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2009 AND 2008

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:				
Contributions, memberships and grants	$ 4,439,519	1,628,842	1,972,155	8,040,516
In-kind contributions *(note 13)*	836,638	–	–	836,638
Financial support received from volunteer groups	242,688	–	–	242,688
Admissions	1,079,639	–	–	1,079,639
Museum shop sales	828,043	–	–	828,043
Total investment return *(note 6)*	(6,300,051)	(859,702)	(4,339)	(7,164,092)
Net decline in beneficial interest in the net assets of the Oregon Arts Heritage Endowment Fund *(note 6)*	–	–	–	–
Other	2,026,911	–	–	2,026,911
Total revenues and gains	3,153,387	769,140	1,967,816	5,890,343
Net assets released from restrictions *(note 12)*	3,449,071	(3,449,071)	–	–
Net distributions from the Oregon Arts Heritage Endowment Fund *(note 6)*	–	–	–	–
Total revenues, gains and other support	6,602,458	(2,679,931)	1,967,816	5,890,343
Expenses *(note 15)*:				
Program activities:				
Acquisition of art *(note 9)*	252,070	–	–	252,070
Museum programs	9,442,718	–	–	9,442,718
Film center programs	1,739,287	–	–	1,739,287
Total program services	11,434,075	–	–	11,434,075
Supporting activities:				
Management and general	3,236,060	–	–	3,236,060
Fundraising, membership and development	1,760,726	–	–	1,760,726
Total supporting services	4,996,786	–	–	4,996,786
Total expenses	16,430,861	–	–	16,430,861
Increase (decrease) in net assets	(9,828,403)	(2,679,931)	1,967,816	(10,540,518)
Reclassification of endowment assets based on a change in the law governing the management of endowment funds *(note 3)*	(1,159,191)	1,159,191	–	–
Cumulative effect of the adoption of the fair value option *(note 3)*	129,486	14,596	97,377	241,459
Net assets at beginning of year	78,754,924	5,655,748	29,316,725	113,727,397
Net assets at end of year	$ 67,896,816	4,149,604	31,381,918	103,428,338

See accompanying notes to financial statements.

2008			
Unrestricted	Temporarily restricted	Permanently restricted	Total
6,478,563	1,277,490	5,225,933	12,981,986
421,160	–	–	421,160
234,051	–	–	234,051
1,625,413	–	–	1,625,413
1,216,601	–	–	1,216,601
(939,374)	(1,267,144)	–	(2,206,518)
–	–	(276,963)	(276,963)
2,440,509	–	–	2,440,509
11,476,923	10,346	4,948,970	16,436,239
1,896,032	(1,896,032)	–	–
224,634	–	(224,634)	–
13,597,589	(1,885,686)	4,724,336	16,436,239
612,121	–	–	612,121
9,736,061	–	–	9,736,061
1,548,918	–	–	1,548,918
11,897,100	–	–	11,897,100
4,327,516	–	–	4,327,516
1,724,794	–	–	1,724,794
6,052,310	–	–	6,052,310
17,949,410	–	–	17,949,410
(4,351,821)	(1,885,686)	4,724,336	(1,513,171)
–	–	–	–
–	–	–	–
83,106,745	7,541,434	24,592,389	115,240,568
78,754,924	5,655,748	29,316,725	113,727,397

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Cash received from contributors, grantors and members	$ 7,766,808	13,032,242
Cash received from admissions and service recipients	2,103,078	3,083,944
Interest and dividends received	836,269	1,256,318
Other receipts	2,372,444	2,467,509
Cash paid to employees and suppliers	(13,097,292)	(16,984,619)
Interest paid	(528,103)	(964,685)
Net cash provided by (used in) operating activities	(546,796)	1,890,709
Cash flows from investing activities:		
Purchases of investments	(84,920)	(1,627,334)
Reinvestment of investment income	(800,497)	(701,033)
Proceeds from the sale of investments	2,222,440	4,053,187
Acquisition of works of art	(252,070)	(612,121)
Acquisition of property and equipment	(68,170)	(93,064)
Net cash provided by investing activities	1,016,783	1,019,635
Cash flows from financing activities:		
Proceeds from contributions restricted to long-term investment	2,505,664	1,812,433
Repayment of note principal	(4,460,983)	(5,006,970)
Net cash used in financing activities	(1,955,319)	(3,194,537)
Net decrease in cash and cash equivalents	(1,485,332)	(284,193)
Cash and cash equivalents at beginning of year	7,118,517	7,402,710
Cash and cash equivalents at end of year	$ 5,633,185	7,118,517

Supplemental schedule of noncash investing and financing activities		
Termination of the Oregon Arts Heritage Endowment Fund and the related transfer of the funds to the Museum to establish the Portland Art Museum Endowment Fund *(see note 6)*	$ –	3,931,756

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

1. Organization

The Portland Art Museum was incorporated as an educational, nonprofit organization in 1892. The mission of the Museum is to serve the public by providing access to art of enduring quality, by educating a diverse audience about art, and by collecting and preserving a wide range of art for the enrichment of present and future generations.

The Museum operates the Portland Art Museum and the Northwest Film Center (the "Film Center"), a regional media arts organization founded in 1971 with the mission of advancing film and video as a means of personal expression. Through each entity, the Museum presents the community with a diverse program of visual and media art education, exhibition, collection, outreach, and artist service programs.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Museum are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – The Museum has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Museum and/or the passage of time. These balances generally represent the unexpended portion of externally restricted contributions and investment return to be used for specific programs and activities as directed by donors.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on related investments for general or specific purposes.

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 (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 financial statements, the Museum considers all liquid investments having initial maturities of one year or less to be cash equivalents.

Investments – Under the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position.

Net appreciation (decline) in the fair value of investments, which consists of both the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Interest income is accrued as earned, and reported net of investment advisory and transaction fees (totaling $122,486 in 2009 and $101,142 in 2008). All security transactions are recorded on a trade date basis. Gains and losses on investments are generally reported as increases or decreases in unrestricted net assets unless explicit donor stipulations or law restrict their use.

The Museum has some exposure to investment risks, including interest rate, market, and credit risks, for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Real Estate Investments – The Museum's real estate investments consist of unimproved land, improved properties, and long-term ground leases. Because of the inherent uncertainties of real estate valuation, the Museum's real estate investments are carried at cost, or at market value when acquired through a charitable contribution. No depreciation is calculated on real estate investments. See note 16 for further discussion of the Museum's real estate investments.

Derivative Instruments – The Museum makes limited use of interest rate swaps to manage interest rate risk associated with variable rate debt (see note 11). Under these agreements, the Museum and its counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less. Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt.

Other Financial Instruments – Recorded amounts for receivables, prepaid expenses and other assets, and accounts payable, accrued expenses, and deferred revenue approximate fair value.

Inventories – Inventories, which consist primarily of educational materials and other items held for sale in the Museum's gift shop, are carried at the lower of cost or market value. Cost is determined using the average cost method.

Capital Assets and Depreciation – Generally, property and equipment with a carrying value in excess of $2,500 are capitalized and reported at cost when purchased, and at market value when acquired by gift. Interest is capitalized in connection with the construction of major facilities until such time as the facilities become operational. The capitalized interest is recorded as a part of the assets to which it relates and is amortized over the asset's estimated useful life. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the respective assets, which is 50 years for buildings and 5 years for furniture, equipment and leasehold improvements, or the term of the lease, if less.

Museum Collections – The Museum's collections comprise more than 45,000 objects and works of art, including works of European painting and sculpture, American painting and sculpture, silver, Asian art, Native American art, Pre-Columbian art, Cameroon and other African art, contemporary art, sculpture, prints and drawings, and photography. The collections are maintained for public exhibition, education and research in furtherance of public service, rather than for financial gain. The Museum's collections, acquired through purchase and donation, are not recognized as assets in the accompanying financial statements. Purchases of collection items are recorded in the year in which the items were acquired as decreases in unrestricted or temporarily restricted net assets, depending on the source of the assets used to purchase the items and whether those assets were restricted by donors. Contributed collection items are not reflected in the financial statements. Pursuant to Museum policy, proceeds from the sale of art and related insurance settlements are recorded as temporarily restricted net assets for the acquisition of works of art.

Endowment Funds and Interpretation of Relevant Law – Effective January 1, 2008, the State of Oregon adopted the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") which governs Oregon charitable institutions with respect to the management, investment and expenditure of donor-restricted endowment funds.

The Board of Trustees has interpreted Oregon's adoption of UPMIFA as requiring the Museum to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Museum has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Museum classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the portion of a donor-restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the Museum to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Museum's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore, the Board of Trustees 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 Museum and the 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 Museum; and
- The investment policies of the Museum.

To meet that objective, the Museum's policies limit the spending of investment income and appreciation to 6.0% of the market value of such investments computed on a thirteen-quarter trailing average for 2009 and 2008.

In accordance with this policy, $2,182,062 and $2,262,363 were appropriated to current operations during the years ended June 30, 2009 and 2008, respectively. In addition, during the year ended June 30, 2009 the Board of Trustees authorized the withdrawal of an additional $2,000,000 from Board-designated endowment to satisfy a note payable due on certain real estate investments. Finally, the Museum also received $239,036 in distributions from the investments held at the Oregon Community Foundation. See notes 11, 12, and 16.

Beneficial Interest in Perpetual Trusts – The Museum has been named the beneficiary of two perpetual trusts, arrangements in which a donor establishes and funds a perpetual trust that is administered by a third party trustee. Under the terms of the trusts, the Museum has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. Annual distributions from the trusts are reported as investment income that increase unrestricted and restricted net assets.

Interests in perpetual trusts are recognized by the Museum as contribution revenue and as an asset, measured at fair value, at the time the Museum becomes aware of the trust's existence. The contribution is classified as permanently restricted support because the trust is similar to a donor-restricted permanent endowment that the organization does not control. Periodically, the Museum remeasures its beneficial interest at fair value, using the same valuation technique used to measure the asset initially. The adjustment is recognized as a permanently restricted gain or loss.

Contributions – Contributions, which include unconditional promises to give (i.e., pledges), are recognized as revenue in the period the promise was received by the Museum. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved.

Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on past collection history.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – The Museum receives contributed services from a large number of volunteers who assist in fundraising and other efforts through their participation in a range of businesses and activities. In accordance with SFAS No. 116, the value of such services, which the Museum considers generally not practicable to estimate, have not been recognized in the accompanying financial statements. Significant services received, which create or enhance a non-financial asset or require specialized skills that the Museum would have purchased if not donated are recognized in the accompanying financial statements.

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Museum's activities.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time the Museum has an established right to the bequest and the proceeds are measurable. Admissions and other service revenues are recognized at the time the services are provided and the revenues are earned. All revenues associated with advance ticket sales and tuition and fees received for future fiscal years are reported as deferred revenues until earned. Membership payments received from Museum members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

Benefits Provided to Donors at Special Events – The Museum conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Museum.

Outstanding Legacies – The Museum is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Museum's share of such bequests is recorded when the probate courts declare the testamentary instrument valid and the proceeds are measurable.

Program Activities – The Museum's program activities include all Museum and Film Center programs and activities, including research, collections management, education, public programs, exhibitions, and the acquisition of art.

Advertising and Promotional Expenses – Advertising and promotional costs are charged to expense as they are incurred. Advertising and marketing expenses totaled $630,616 and $472,562 for the years ended June 30, 2009 and 2008, respectively.

Conflict of Interest Policies – Included among the Museum's Board members and committee members are volunteers from the community who provide valuable assistance to the Museum in the development of policies and programs, and in the evaluation and oversight of services. The Museum has established a conflict-of-interest policy whereby Board and committee members must advise the Board of Trustees of any direct or indirect interest in any transaction or relationship with the Museum, and not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

Concentrations of Credit Risk – The Museum's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, investments in private equity partnerships, mutual funds, money market funds, and investments held at the Oregon Community Foundation. These financial instruments may subject the Museum to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"), the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

On October 3, 2008, President George W. Bush signed the Emergency Economic Stabilization Act of 2008, which temporarily raises the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase became effective immediately upon the President's signature and will remain in effect through December 31, 2013. Unlimited deposit insurance coverage is provided through December 31, 2009 by the FDIC for non-interest-bearing transaction accounts at institutions participating in the FDIC's Transaction Account Guarantee Program. In addition, the U.S. Treasury Department's temporary Money Market Funds Guarantee Program provides coverage for the organization's money market funds up to the amount held in participating money market funds as of the close of business on September 19, 2008.

At June 30, 2009 and 2008, the Museum held $5,344,025 and $4,391,153, respectively, in cash balances in excess of the FDIC insured level.

Certain receivables also subject the Museum to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, Museum management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Income Taxes – The Museum is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The Museum derives its public charity status as an organization described in Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. New Accounting Pronouncement

During the year ended June 30, 2009, the Museum adopted the following new accounting standards:

- Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), *Fair Value Measurements*, was issued by the Financial Accounting Standards Board ("FASB") in September of 2006. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. The pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. See note 19.

- Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), *Fair Value Option for Financial Assets and Financial Liabilities*, was issued by the Financial Accounting Standards Board ("FASB") in February of 2007. This standard permits organizations to irrevocably elect to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in its measure of operations. Such accounting is optional and is generally applied instrument by instrument. During the year ended June 30, 2009, the Museum adopted SFAS No. 159 for all contributions and grants receivable. Implementation of this new accounting standard resulted in a cumulative effect of the change through June 30, 2008 totaling $241,459. The change in net assets during the year ended June 30, 2009 resulting from the implementation of this new standard was minimal.

- FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, was issued in August of 2008. Effective January 1, 2008, the State of Oregon adopted the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA") which governs Oregon charitable institutions with respect to the management, investment and expenditure of endowment funds. The guidance in FSP 117-1 is intended to improve the quality and consistency of financial reporting of endowments held by nonprofit organizations, and provides specific guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. During the year ended June 30, 2009, implementation of this new accounting standard resulted in the reclassification of $1,159,191 in unappropriated endowment assets from unrestricted net assets to temporarily restricted net assets. The FSP also requires additional disclosures about endowments (both donor-restricted and Board-designated funds). See note 12.

4. Accounts Receivable

At June 30, 2009 and 2008, the following accounts receivable were outstanding:

		2009	2008
Oregon Arts Heritage Endowment Fund	$	–	239,653
Rentals of artwork		65,348	115,721
Events and other		167,377	247,212
	$	232,725	602,586

5. Pledges Receivable

Pledges receivable at June 30, 2009 and 2008 are summarized as follows:

		2009	2008
Endowment	$	5,222,435	6,578,293
Museum operations and programs		4,917,662	6,766,445
		10,140,097	13,344,738
Less discount		(287,844)	(785,142)
Less allowance for doubtful collection		(97,567)	–
	$	9,754,686	12,559,596

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2.33% in 2009, and discount rates ranging from 4.25% to 8.25% in 2008.

Amounts are due at June 30, 2009 and 2008, as follows:

		2009	2008
Unconditional promises expected to be collected in:			
Less than one year	$	3,679,828	3,765,746
One year to five years		6,287,269	9,053,191
Over five years		173,000	525,801
	$	10,140,097	13,344,738

6. Investable Assets and Investment Return

Investments, including cash equivalents, as of June 30, 2009 and 2008 comprised the following:

		2009	2008
Equity mutual funds	$	15,126,185	22,057,332
Fixed income mutual funds		4,340,946	8,119,140
Other mutual funds		1,046,622	1,125,892
Government bonds		45,896	658,651
Interests in private equity partnerships		8,116,732	7,109,314
Money market funds and other cash equivalents		8,078,839	7,464,603
Investments held at the Oregon Community Foundation		2,888,752	3,931,756
	$	39,643,972	50,466,688

The above total is reported on the accompanying statements of financial position, as follows:

		2009	2008
Cash and cash equivalents	$	5,633,185	7,118,517
Investments		34,010,787	43,348,171
	$	39,643,972	50,466,688

On June 1, 2008 the Museum received the transfer of its share of the Oregon Art Heritage Endowment Fund totaling $4,171,409. Subsequently, the Museum transferred management of the funds to the Oregon Community Foundation and established the Portland Art Museum Endowment Fund. Under the terms of its agreement with the Oregon Community Foundation, the Museum receives an annual distribution of investment return equal to 6.0% of the fair market value of the fund, calculated in accordance with the Oregon Community Foundation's spending policies (currently based on a 13-quarter market value average). Additional distributions can be made at any time by an affirmative vote of the majority of the Museum's Board of Trustees and the approval of the Oregon Community Foundation. During the year ended June 30, 2009, the Museum received $239,037 in accordance with this agreement ($224,634 in 2008).

Investments consist of the Museum's ownership interest in externally managed funds, which are invested in market-traded fixed-income securities, equity securities, and other investment securities. Investments in private equity partnerships consist of the Museum's ownership interest in externally managed funds which invest in less liquid securities. For all investment funds, fair value represents the Museum's original investment plus the Museum's allocated share of income, realized gains and losses, and unrealized appreciation and decline, net of fees and distributions. The market value of mutual funds and equity securities is based on quoted market prices and published unit values. The market value of the funds held at the Oregon Community Foundation is based on information reported to the Museum by the Oregon Community Foundation.

Investments in private equity partnerships have been valued by the general partners of the partnerships and reported to the Museum. A portion of these investments are in non-marketable securities for which there are no readily obtainable market values. Values for these investments, which are generally subject to certain withdrawal restrictions, are provided by the general partner and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. The Museum believes that the stated value of its alternative investments represents a reasonable estimate of fair value at June 30, 2009 and 2008. However, because of the inherent uncertainty of valuation for these investments, values may differ significantly from values that would have been used had a readily available market for the investments existed.

In addition to the investments summarized above, the Museum is obligated under the terms of certain agreements with private equity partnerships to remit additional funding periodically. At June 30, 2009 and 2008, such commitments totaled $992,637 and $1,066,823, respectively.

Investment performance for all accounts managed under investment agreements is reviewed periodically by the Museum's Investment Committee and Board of Trustees.

Total investment return for the years ended June 30, 2009 and 2008 are summarized as follows:

		2009	2008
Interest and dividend income	$	836,269	1,016,665
Net decline in the fair market value of investments		(8,000,361)	(3,223,183)
Total investment return	$	(7,164,092)	(2,206,518)

7. Beneficial Interest in Perpetual Trusts

The Museum holds interests in two perpetual trusts managed by others. At June 30, 2009, an interest equal to $954,406 has been recorded, representing the present value of the estimated future cash flows that will inure to the Museum from this gift (essentially equal to the current fair value of the underlying assets). There were $29,295 in payments received from these trusts during the year ended June 30, 2009.

8. Property and Equipment

A summary of property and equipment at June 30, 2009 and 2008 is as follows:

		2009	2008
Land and land improvements	$	3,545,955	3,545,955
Belluschi Building		8,498,151	8,498,151
Mark Building		41,839,166	41,839,166
Hoffman Wing		18,892,260	18,892,260
Furniture and equipment		4,521,552	4,325,687
Leasehold improvements		288,790	288,790
		77,585,874	77,390,009
Less accumulated depreciation		(17,282,770)	(15,582,864)
	$	60,303,104	61,807,145

The Museum accounts for the impairment of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Museum evaluates all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to forecasted, undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset.

9. Museum Collections

During the years ended June 30, 2009 and 2008, the Museum acquired works of art for a total cost of $252,070 and $612,121, respectively. During these same periods, the Museum accepted donations of art with an estimated value of $5,650,232 and $2,587,996, respectively. Pursuant to Museum policies, purchases of art are recorded as expenses in the statement of activities; no value is reported for the in-kind contribution of art.

10. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2009 and 2008:

		2009	2008
Film Center tuition	$	148,562	168,908
Events and projects		164,973	268,870
Other		49,205	74,427
	$	362,740	512,205

11. Notes Payable

At June 30, 2009 and 2008, the Museum reported the following outstanding financing arrangements:

		2009	2008
Revolving line of credit facility	$	11,346,174	13,807,157
Note issued for the acquisition of certain real estate		–	2,000,000
	$	11,346,174	15,807,157

The Museum maintains an unsecured revolving line of credit facility with a financial institution in the amount of $25,000,000 for renovations made to the Mark building during the 2004-06 years. The facility requires interest at a rate equal to LIBOR plus 1.25%. The Museum has also entered into interest rate swap agreements to fix the interest rate risk on portions of the debt.

At June 30, 2009, $11,346,174 was outstanding under the credit facility. The agreement provides that the Museum will pay a fixed rate of interest equal to 5.75% on $3,391,504 of the obligation, and 7.05% on $1,292,029 of the obligation. In return, under the interest rate swap agreements, the Museum receives the actual variable rate paid on the note based on the notional principal amount outstanding. Amounts receivable or payable under the agreements are accounted for as adjustments to interest expense. Interest on the remaining balance of $6,662,641 at June 30, 2009 is based on LIBOR plus 1.25% (1.57% at June 30, 2009).

At June 30, 2008, $13,807,157 was outstanding under this agreement, with $3,958,412 carrying interest at a fixed rate of 5.75%, $1,500,000 at a fixed interest rate of 7.05%, with the remaining balance of $8,348,745 at June 30, 2008 at a variable rate (3.71% at June 30, 2008).

Repayment terms require the monthly payment of amortized principal and interest through June 2014. Additional payments of principal and interest can also be made at any time prior to June 1, 2014 without penalty. At June 30, 2009, the market value of the interest rate swaps was a negative $345,533. The net change in the market value of the interest swaps has been reported in the accompanying statements of activities in the other income category.

Finally, the Museum's agreement with the bank contains certain restrictive provisions that require the maintenance of a debt service coverage ratio of 1.25, a liquidity ratio of 1.5, and also limit the Museum's ability to incur additional significant direct or contingent liabilities or lease commitments. Due to the decline in the market value of its investments during the year ended June 30, 2009, the Museum was not in compliance with these requirements as of June 30, 2009. The noncompliance has been acknowledged by the bank, but the bank's rights under the agreement have not been waived, including the bank's ability to require the immediate repayment of the entire loan balance.

During the year ended June 30, 2006, the Museum issued an interest-free promissory note in the amount of $2,000,000 for the acquisition of certain real estate (see note 16). This note was secured by the underlying property and was repaid in full on November 2, 2008.

The following table summarizes the maturities of note principal for the five years subsequent to June 30, 2009 and thereafter:

Years ending June 30,		
2010	$	2,621,144
2011		2,793,392
2012		2,975,536
2013		1,900,086
2014		1,056,016
	$	11,346,174

The Museum paid a total of $528,103 and $964,705 in interest expense for the years ended June 30, 2009 and 2008, respectively, including payments associated with the interest rate swap agreements described above.

12. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2009 and 2008, $11,380,171 and $17,537,848 of the Museum's unrestricted net assets, respectively, had been designated by the Board of Trustees for operating reserves.

Temporarily Restricted Net Assets

At June 30, 2009, and 2008, temporarily restricted net assets totaled $4,149,604 and $5,655,748, respectively, and comprised contributions, grants, and other unexpended revenues and gains restricted by donors and available only for specific program services and future periods, as follows:

		2009	2008
Acquisition of works of art	$	1,569,456	956,161
General operations		2,497,866	4,422,213
Future periods		82,282	277,374
	$	4,149,604	5,655,748

Temporarily restricted net assets held for general operations includes restricted donations for maintaining the art collections, support of exhibitions, and other Museum programs.

For the years ended June 30, 2009 and 2008, $3,449,071 and $1,896,032, respectively, were released from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, as follows:

		2009	2008
Acquisition of works of art	$	245,923	506,580
Capital acquisitions		–	29,574
Other operational support		3,203,148	1,359,878
	$	3,449,071	1,896,032

Accordingly, a corresponding amount is reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying financial statements.

Permanently Restricted Net Assets

At June 30, 2009 and 2008, the Museum held $31,381,918 and $29,316,725, respectively, in endowment funds. The investment income earned on these permanently restricted net assets is restricted or unrestricted as follows:

		2009	2008
Income restricted for:			
Museum operations	$	20,822,960	19,678,658
Acquisition of works of art		894,550	823,729
Income unrestricted		9,664,408	8,814,338
	$	31,381,918	29,316,725

Cumulative Endowment Adjustment

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. As of June 30, 2009, the Museum had incurred cumulative investment losses on its endowment funds totaling $4,121,529 in excess of unappropriated accumulated endowment earnings. Accordingly, in order to report the losses as required by SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the excess losses and appropriations have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

The following summarizes the Museum's donor-restricted and Board-designated endowment-related activities for the year ended June 30, 2009:

		Donor-restricted endowment				Board-designated endowment	
		Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endowment
Endowment net assets at beginning of year, as previously reported	$	–	2,758,541	29,316,725	32,075,266	17,537,848	49,613,114
Reclassification of endowment assets based on a change in the law governing the management of endowment funds *(note 3)*		–	1,159,191	–	1,159,191	(1,159,191)	–
Cumulative effect of the adoption of the fair value option *(note 3)*		–	2,182	97,377	99,559	–	99,559
Endowment net assets at beginning of year, as restated		–	3,919,914	29,414,102	33,334,016	16,378,657	49,712,673
Contributions and bequests		–	2,725	1,017,749	1,020,474	120	1,020,594
Contributions of interest in perpetual trusts		–	–	954,406	954,406	–	954,406
Investment return (loss)		(4,121,529)	(919,824)	(4,339)	(5,045,692)	(2,205,952)	(7,251,644)
Appropriation of endowment assets for expenditure		–	(1,428,444)	–	(1,428,444)	(2,992,654)	(4,421,098)
Transfers [1]		–	(200,000)	–	(200,000)	200,000	–
Endowment net assets at end of year	$	(4,121,529)	1,374,371	31,381,918	28,634,760	11,380,171	40,014,931

[1] During the year ended June 30, 2009, the museum collected $200,000 on pledges associated with a former capital campaign and transferred the proceeds to a Board-designated endowment.

13. In-Kind Contributions

The Museum is the recipient of various in-kind contributions of goods and services for which objective measurement or valuation is available. These in-kind contributions are reported in the accompanying financial statements as follows for the years ended June 30, 2009 and 2008:

		2009	2008
Museum programs	$	464,703	212,027
Film Center programs		244,240	209,133
Equipment		127,695	–
	$	836,638	421,160

14. Retirement Plan

During the year ended June 30, 2009, the Museum enrolled substantially all eligible employees in a defined contribution money purchase pension plan. The Museum contributed an amount to the plan based on a percentage of the employee's annual salary. The percentage contributed ranged from 3.0% to 7.0%, depending upon the years of employment. Participants become fully vested in the funds after three years of employment. The Museum's policy is to fund pension costs as they are accrued. Pension expense totaled $184,368 and $140,744 for the years ended June 30, 2009 and 2008, respectively.

Effective June 30, 2009, the plan was closed to new entrants and the balances for each member will be transferred to a new 401(k) plan that has been set up to replace the money purchase plan. Under the new plan, the Museum will make discretionary matching contributions up to a predetermined maximum. There are no outstanding obligations to make contributions to the new plan as of June 30, 2009.

15. Expenses

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

Costs by their natural classification are summarized as follows:

		2009	2008
Salaries and related costs	$	7,240,685	7,091,361
Contract labor		941,734	1,042,189
Professional services		51,571	175,092
Exhibition installation		228,606	760,378
Events		187,504	175,462
Acquisition of works of art *(note 9)*		252,070	612,121
Occupancy		1,000,404	948,416
Merchandise		439,464	622,909
Insurance		169,273	163,510
Advertising		630,616	472,562
Postage and shipping		476,543	797,149
Travel		174,925	206,025
Printing and publications		355,057	494,065
Equipment maintenance		328,107	255,937
Merchant fees		105,137	129,905
Supplies		161,200	154,460
Interest		528,103	964,705
Depreciation		1,699,906	1,646,803
In-kind expenses		708,943	421,160
Other		751,013	815,201
	$	16,430,861	17,949,410

Exhibition-related costs in the above table totaled $2,013,151 and $2,851,091 for the years ended June 30, 2009 and 2008, respectively. Exhibition-related costs vary significantly from year to year depending on the number and size of exhibitions installed.

16. Real Estate Investments

To provide for possible future expansion of its facilities, in November of 2006 the Museum acquired additional parcels of land in the City of Portland located next to the Museum's current facilities. The acquisition included two parcels of property, one representing the outright purchase of fee title interest in real property and the second representing the acquisition of all interest in property subject to a 99-year ground lease, together with various exchange option and extension agreements. The purchase price for both parcels totaled $3.1 million, plus $37,854 in closing costs. Concurrent with this acquisition, the Museum paid an additional $1.7 million to purchase all rights previously sold to an unrelated party to acquire and develop both properties, including all existing plans, drawings, specifications, blueprints, surveys, and other work product relating to the ownership, operation, maintenance, and development of both properties.

The purchase was partially financed through a $2,600,000 interest-free note, with $600,000 of note principal forgiven by the seller shortly after the transaction was completed (see note 11). The balance of the purchase was underwritten using Board-designated unrestricted funds.

At June 30, 2009, the approximate minimum rental commitments under the ground lease described above, for the remaining years of the initial 10 years of the lease, are as follows:

Years ending June 30,		
2010	$	98,400
2011		98,400
2012		100,400
2013		101,400
2014		101,400
Thereafter		236,600
	$	736,600

Rent expense associated with this arrangement totaled $98,400 for the years ended June 30, 2009 and 2008.

Put and Call Options

As a part of the ground lease agreement on the second parcel of land, the Museum also acquired all rights and conditions previously held by the seller, including various put and call options. For example, the lessor holds the right to exercise a put option on the fifth anniversary of the ground lease and every five years thereafter. This means that, in accordance with the specific terms of the agreement, the lessor may require the Museum to purchase the underlying land at a price to be determined based on an independent appraisal of the fair market value of the property at that time. Simultaneously, the Museum has acquired the right to exercise a call option (or the right to purchase the underlying property) at the end of the 10 year initial lease period, or on any date thereafter, again, with the price to be determined based on an independent appraisal of the fair market value of the property.

In the event the Museum decides to develop the property for charitable purposes, the Museum also has the right to purchase the property at any time prior to the 10th anniversary of the effective date of the ground lease agreement (i.e., November 2, 2016), but the purchase price will be based on an independent appraisal of the fair market value of the property, increased by an amount equal to 5.0% for each full year remaining of the first five years of the initial 10-year lease period, and 2.3% for each full year remaining of the last five years of the initial 10-year lease period.

17. Other Operating Leases

The Museum leases various other office and program equipment under non-cancellable operating leases expiring at various dates through July of 2014.

At June 30, 2009, the approximate minimum rental commitments under these leases are as follows:

Years ending June 30,		
2010	$	188,050
2011		194,646
2012		161,103
2013		126,607
2014		78,152
Thereafter		3,858
	$	752,416

Rent expense associated with these lease arrangements totaled $175,014 and $111,021 for the years ended June 30, 2009 and 2008, respectively.

In addition, the Museum subleases to unrelated parties a parking lot and certain other facilities under single-year leases. Annual rental revenues for the years ended June 30, 2009 and 2008 totaled approximately $340,000 and $331,000, respectively.

18. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately $82,305 and $465,875 for the years ended June 30, 2009 and 2008, respectively.

19. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments carried at fair value. These instruments include:

- Investments
- Contributions and grants receivable
- Beneficial interest in perpetual trusts
- Liabilities associated with interest swap agreements

Contributions and grants receivable are carried at fair value in the accompanying financial statements as a result of the adoption of SFAS No. 159 effective July 1, 2008. See note 3.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale; similarly, the fair value of a liability is the amount at which the liability could be transferred in a current transaction between willing parties. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

All financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SFAS No. 157, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At June 30, 2009, the following financial assets and liabilities are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments	$ 23,005,302	–	11,005,485	34,010,787
Contributions and grants receivable	–	–	9,754,686	9,754,686
Beneficial interest in perpetual trusts	–	–	954,406	954,406
Interest rate swap agreements	–	–	(345,533)	(345,533)
	$ 23,005,302	–	21,369,044	44,374,346

The changes in valuation of Level 3 assets and liabilities are as follows:

	Investments	Contributions and grants receivable	Beneficial interest in perpetual trusts	Interest rate swap agreements	Total
Fair value at beginning of year	$ 11,041,050	12,559,596	–	–	23,600,646
Cumulative effect of the adoption of the fair value option *(note 3)*	–	241,459	–	–	241,459
Sales of investments	(572,731)	–	–	–	(572,731)
Purchase of investments	2,084,920	–	–	–	2,084,920
Reinvestment of investment income	145,127	–	–	–	145,127
Net decline in the fair value of investments	(1,692,881)	–	–	–	(1,692,881)
Receipt of new pledges	–	1,091,250	–	–	1,091,250
Collection of pledge payments	–	(4,295,891)	–	–	(4,295,891)
Changes in the allowance for doubtful collection of receivables	–	(97,567)	–	–	(97,567)
Changes in the unamortized discount associated with contributions and grants receivable	–	255,839	–	–	255,839
Receipt of interests in perpetual trusts	–	–	954,406	–	954,406
Recording a liability representing the market value of the Museum's interest rate swap agreement	–	–	–	(345,533)	(345,533)
Fair value at end of year	$ 11,005,485	9,754,686	954,406	(345,533)	21,369,044
	[A]	[B]	[C]	[D]	

[A] The fair value of the Museum's investment in private equity partnerships are reported based on fair value information provided to the Museum by the partnership's general partner. See note 6.

[B] The fair value of contributions and grants receivable is based on the expected payment date, using a discount rate of 2.33%. See note 5.

[C] The fair value of the Museum's beneficial interest in perpetual trusts is based on the reported fair values of the underlying investments held in each trust. See note 7.

[D] The fair value assigned to the Museum's interest swap agreement is based on mark-to-market value at June 30, 2009 as provided by the bank.

20. Related Party Transactions

From time to time, the Museum enters into transactions with individuals or entities that have a relationship to a member of the Board of Trustees. These transactions have been subject to Board approval, which management believes approximates fair value.

There were no related party transactions during the years ended June 30, 2009 or 2008.

21. Statements of Cash Flows Reconciliation

The following presents a reconciliation of the decrease in net assets (as reported on the statements of activities) to net cash provided by (used in) operating activities (as reported on the statements of cash flows):

	2009	2008
Decrease in total net assets	$ (10,540,518)	(1,513,171)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,699,906	1,646,803
Net decline in the fair market value of investments *(note 6)*	8,000,361	3,223,183
Acquisition of works of art	252,070	612,121
In-kind donation of equipment	(127,695)	–
Proceeds from contributions restricted to long-term investment	(2,505,664)	(1,812,433)
Contributions of perpetual trust interests	(954,406)	–
Net decline in beneficial interest in the net assets of the Oregon Arts Heritage Endowment Fund	–	516,616
Net changes in:		
Accounts receivable	344,861	52,617
Pledges receivable	3,071,369	1,724,763
Inventories and prepayments	50,441	1,110
Other assets	(472)	(69,125)
Accounts payable and accrued expenses	(200,960)	40,076
Accrued payroll and related expenses	167,843	120,170
Other liabilities	345,533	–
Deferred revenues	(149,465)	189,313
Deferred compensation	–	(2,841,334)
Total adjustments	9,993,722	3,403,880
Net cash provided by (used in) operating activities	$ (546,796)	1,890,709

■

22. Reclassification of 2008 Comparative Totals

Certain 2008 amounts presented herein have been reclassified to conform to the 2009 presentation.

GOVERNING BOARD AND MANAGEMENT

[1] Executive committee
[2] Finance committee
[3] Audit committee
[4] Investment committee

INQUIRIES AND OTHER INFORMATION

PORTLAND ART MUSEUM
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