GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2011 and 2010
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. LLP, 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.

James H. Winkler
Treasurer
Board of Trustees
Portland Art Museum

GaryMcGee & Co. LLP
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, 2011 and 2010, 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, 2011 and 2010, 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. LLP

September 22, 2011

PORTLAND ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2010
Assets:					
Cash and cash equivalents *(notes 5 and 10)*	$ 2,702,658	3,380,788	119,819	6,203,265	6,150,540
Accounts receivable *(note 3)*	302,720	–	–	302,720	289,441
Pledges receivable *(note 4)*	1,985,885	508,100	2,428,469	4,922,454	8,309,813
Inventories and prepayments	526,440	–	–	526,440	398,678
Other assets	563,061	40,007	–	603,068	621,455
Investments *(note 5)*	10,325,353	3,749,302	28,487,149	42,561,804	35,957,522
Beneficial interest in perpetual trusts *(note 6)*	–	–	1,100,051	1,100,051	1,012,887
Real estate investments, at cost *(note 15)*	4,837,854	–	–	4,837,854	4,837,854
Property and equipment *(notes 7 and 10)*	58,757,806	–	–	58,757,806	58,704,657
Total assets	$ 80,001,777	7,678,197	32,135,488	119,815,462	116,282,847
Liabilities:					
Accounts payable and accrued expenses	574,157	–	–	574,157	597,984
Accrued payroll and related expenses	622,295	–	–	622,295	742,734
Deferred revenues *(note 9)*	464,467	–	–	464,467	408,560
Other liabilities *(note 10)*	202,664	–	–	202,664	312,082
Notes payable *(note 10)*	8,154,735	–	–	8,154,735	9,032,218
Due (from) to other funds	(746,462)	751,462	(5,000)	–	–
Total liabilities	9,271,856	751,462	(5,000)	10,018,318	11,093,578
Net assets:					
Unrestricted:					
Available for programs and general operations	3,651,596	–	–	3,651,596	5,969,638
Designated by the Board of Trustees *(note 11)*	12,387,513	–	–	12,387,513	11,194,958
Cumulative endowment losses *(note 11)*	(750,113)	–	–	(750,113)	(3,058,612)
Net investment in capital assets and real estate investments	55,440,925	–	–	55,440,925	54,510,293
Total unrestricted	70,729,921	–	–	70,729,921	68,616,277
Temporarily restricted *(note 11)*	–	6,926,735	–	6,926,735	4,561,940
Permanently restricted for endowment *(note 11)*	–	–	32,140,488	32,140,488	32,011,052
Total net assets	70,729,921	6,926,735	32,140,488	109,797,144	105,189,269
Commitments and contingencies *(notes 5, 10, 14, 15, 16, and 17)*					
Total liabilities and net assets	$ 80,001,777	7,678,197	32,135,488	119,815,462	116,282,847

See accompanying notes to financial statements.

PORTLAND ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

		2011		
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, memberships, and grants	$ 3,509,967	3,370,382	39,064	6,919,413
In-kind contributions *(note 12)*	710,449	–	–	710,449
Financial support received from volunteer groups	165,945	–	–	165,945
Admissions	1,151,411	–	–	1,151,411
Museum shop sales	835,062	–	–	835,062
Rental income	1,508,599	–	–	1,508,599
Tuition and fees	453,421	–	–	453,421
Total investment return *(note 5)*	4,271,986	3,269,159	90,372	7,631,517
Other	632,625	–	–	632,625
Total revenues and gains	13,239,465	6,639,541	129,436	20,008,442
Net assets released from restrictions *(note 11)*	4,274,746	(4,274,746)	–	–
Total revenues, gains, and other support	17,514,211	2,364,795	129,436	20,008,442
Expenses *(note 13)*:				
Program activities:				
Acquisition of art *(note 8)*	159,686	–	–	159,686
Museum programs	9,267,684	–	–	9,267,684
Film center programs	1,826,771	–	–	1,826,771
Total program services	11,254,141	–	–	11,254,141
Supporting activities:				
Management and general	2,525,290	–	–	2,525,290
Fundraising, membership, and development	1,621,136	–	–	1,621,136
Total supporting services	4,146,426	–	–	4,146,426
Total expenses	15,400,567	–	–	15,400,567
Increase in net assets	2,113,644	2,364,795	129,436	4,607,875
Net assets at beginning of year	68,616,277	4,561,940	32,011,052	105,189,269
Net assets at end of year	$ 70,729,921	6,926,735	32,140,488	109,797,144

See accompanying notes to financial statements.

2010			
Unrestricted	Temporarily restricted	Permanently restricted	Total
4,175,330	2,634,262	573,608	7,383,200
795,267	–	–	795,267
224,875	–	–	224,875
1,258,931	–	–	1,258,931
829,999	–	–	829,999
1,325,429	–	–	1,325,429
365,478	–	–	365,478
2,869,185	1,753,337	55,526	4,678,048
493,249	–	–	493,249
12,337,743	4,387,599	629,134	17,354,476
3,975,263	(3,975,263)	–	–
16,313,006	412,336	629,134	17,354,476
280,668	–	–	280,668
9,157,941	–	–	9,157,941
1,862,862	–	–	1,862,862
11,301,471	–	–	11,301,471
2,794,762	–	–	2,794,762
1,497,312	–	–	1,497,312
4,292,074	–	–	4,292,074
15,593,545	–	–	15,593,545
719,461	412,336	629,134	1,760,931
67,896,816	4,149,604	31,381,918	103,428,338
68,616,277	4,561,940	32,011,052	105,189,269

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	$ 8,810,629	7,324,785
Cash received from admissions and service recipients	2,029,101	2,078,034
Interest and dividends received	567,784	544,912
Other receipts	2,485,227	2,150,705
Cash paid to employees and suppliers	(12,904,293)	(12,341,263)
Interest paid	(354,421)	(363,196)
Net cash provided by (used in) operating activities	634,027	(606,023)
Cash flows from investing activities:		
Proceeds from the sale of investments	3,045,100	6,074,600
Purchases of investments	(2,034,496)	(3,386,191)
Reinvestment of investment income	(551,153)	(502,008)
Acquisition of property and equipment	(1,578,508)	(138,081)
Acquisition of works of art *(note 8)*	(159,686)	(280,668)
Net cash provided by (used in) investing activities	(1,278,743)	1,767,652
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	1,574,924	1,669,682
Repayment of note principal	(877,483)	(2,313,956)
Net cash provided by (used in) financing activities	697,441	(644,274)
Net increase in cash and cash equivalents	52,725	517,355
Cash and cash equivalents at beginning of year	6,150,540	5,633,185
Cash and cash equivalents at end of year	$ 6,203,265	6,150,540

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

1. Organization

The Portland Art Museum was incorporated as an educational, nonprofit organization in 1892. The mission of the Museum is to engage the public with art and film of enduring quality, to facilitate dialogue with diverse audiences, and to collect, preserve, and educate for the enrichment of present and future generations.

These financial statements present the operations of 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, exhibitions, collections, 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition* and FASB ASC No. 958-205, *Presentation of Financial Statements*. 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 by actions of the Museum and/or the passage of time. These balances generally represent the unexpended portion of externally restricted contributions and investment returns 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.

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

- Investments
- Pledges receivable
- Beneficial interest in perpetual trusts
- Liabilities associated with interest swap agreements

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 FASB ASC No. 820, *Fair Value Measurements and Disclosures* (see note 19). 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.

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 FASB ASC No. 958-320, *Investments – Debt and Equity Securities,* 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 $98,257 in 2011 and $106,707 in 2010). 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 15 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 10). 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.

Measurement of Pledges Receivable – In accordance with FASB ASC No. 825-10, *Financial Instruments,* the Museum has adopted fair value as the initial and subsequent measure for most pledges receivable. Accordingly, the Museum's discount rate assumptions are revised at each measurement date to reflect current market conditions.

Other Financial Instruments – Recorded amounts for other 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 fair value. Cost is determined using the average cost method.

Capital Assets and Depreciation – Generally, items of property and equipment with a carrying value in excess of $2,500 are capitalized and reported at cost when purchased, and at fair 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 between five and ten years for furniture, equipment, and leasehold improvements, or the term of the lease, if less.

The Museum accounts for the impairment of long-lived assets in accordance with FASB ASC No. 360, *Property, Plant and Equipment*. 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.

Museum Collections – More than 55,000 objects and works of art comprise the Museum's collections, 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, photography, and film.

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.

Exhibition Costs – All unamortized costs directly related to the development and installation of ongoing and future exhibitions are presented as other assets in the accompanying statement of financial position when the Museum can reliably demonstrate that there is a future economic benefit associated with these costs. The costs are expensed over their useful lives, which, for exhibitions, is generally the period over which the exhibition is held. Such costs are expensed immediately when there is insufficient evidence that the costs are recoverable.

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 FASB ASC No. 958-320, 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, for 2011 and 2010, 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.

In accordance with this policy, $1,973,358 and $2,065,996 were appropriated to current operations during the years ended June 30, 2011 and 2010, respectively. In addition, the Board of Trustees authorized withdrawals of an additional $170,585 and $1,274,554 from Board-designated endowment to underwrite payments made on notes payable during the years ended June 30, 2011 and 2010, respectively. Finally, the Museum also received $208,592 and $224,280 in distributions from the investments held by the Oregon Community Foundation ("OCF") during the years ended June 30, 2011 and 2010, respectively.

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.

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 FASB ASC No. 958-605, *Revenue Recognition*, 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.

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.

Advertising and Marketing Expenses – Advertising and marketing costs are charged as expenses as they are incurred. Advertising and marketing expenses totaled $577,311 and $649,456 for the years ended June 30, 2011 and 2010, respectively.

Conflict of Interest Policies – 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 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 fair value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in fair values.

All interest bearing checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to $250,000 per depositor, per insured bank, for each account ownership category. In addition, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides depositors with temporary unlimited coverage for noninterest-bearing transaction accounts. This unlimited protection became effective on December 31, 2010 and terminates on December 31, 2012.

At June 30, 2011 and 2010, the Museum held $3,147,182 and $4,037,647, 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, the Museum's 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 ("IRC") and comparable state law. In addition, the Museum has been recognized as a public charity under IRC Sections 170(b)(1)(A)(vi) and 509(a)(1). Accordingly, no provisions for income taxes related to tax-exempt activities is recorded in the financial statements.

With respect to unrelated business activities, in accordance with FASB ASC No. 740, the Museum evaluates its income tax positions each year to determine whether the Museum's tax position is more likely than not to be sustained if examined by the applicable taxing authority. As of June 30, 2010, the Museum had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. In addition, the organization had no interest and penalties related to income taxes.

Management believes that the organization's income tax returns for years ended June 30, 2008 and prior are no longer subject to examination by tax authorities in its major tax jurisdictions.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events,* subsequent events have been evaluated by management through September 22, 2011, which is the date the financial statements were available to be issued.

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

3. Accounts Receivable

At June 30, 2011 and 2010, the following accounts receivable were outstanding:

	2011	2010
Rentals of artwork	$ 58,558	62,043
Events and other	244,162	227,398
	$ 302,720	289,441

4. Pledges Receivable

Pledges receivable at June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Donor-restricted endowments	$ 2,735,839	4,092,243
Museum operations and programs	2,699,571	4,586,248
	5,435,410	8,678,491
Less discount	(109,908)	(246,263)
Less allowance for doubtful collection	(403,048)	(122,415)
	$ 4,922,454	8,309,813

Unconditional promises to give which are due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.63% in 2011, and 1.81% in 2010.

Amounts due at June 30, 2011 and 2010, are as follows:

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	$ 3,522,915	4,528,938
One year to five years	1,902,495	4,119,553
Over five years	10,000	30,000
	$ 5,435,410	8,678,491

5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2011 and 2010 comprised the following:

	2011	2010
Equity mutual funds	$ 18,040,192	15,053,982
Fixed income mutual funds	8,138,668	5,685,757
Real return mutual funds	3,059,247	1,813,903
Balanced mutual fund	41,709	38,623
Government bonds	–	181,133
Interests in private equity partnerships	9,892,982	9,960,564
Beneficial interest in assets held by the Oregon Community Foundation	3,382,189	2,972,155
	42,554,987	35,706,117
Money market funds and other cash equivalents	6,210,082	6,401,945
	$ 48,765,069	42,108,062

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

	2011	2010
Cash and cash equivalents	$ 6,203,265	6,150,540
Investments	42,561,804	35,957,522
	$ 48,765,069	42,108,062

Continued

The Museum has established a fund at the Oregon Community Foundation which holds and invests it as a component fund for the benefit of the Museum. The Museum has granted OCF variance power over these funds, which gives OCF's Board of Directors the power to use the funds for other purposes in certain circumstances. In accordance with FASB ASC No. 958-605, *Revenue Recognition,* the Museum accounts for its interest in these funds using the equity method of accounting, and carries the beneficial interest in the accompanying financial statements based on an estimate of the present value of the expected future cash flows that will inure to the Museum. The assets in the funds are permanently restricted for endowment.

Changes in the Museum's beneficial interest in these funds for the year ended June 30, 2011 are summarized as follows:

		2011	2010
Balance at beginning of year	$	2,972,155	2,888,752
Plus increase in the fair value of the funds		618,626	307,683
Less the distribution of investment return to the Museum		(208,592)	(224,280)
Balance at end of year	$	3,382,189	2,972,155

Under the terms of its agreement with OCF, the funds are invested at the discretion of OCF and are held in a mixture of asset classes designed to maximize return while minimizing risk. The Museum receives an annual distribution equal to 6.0% of the average fair value of the funds using a trailing 13-quarter market value average. Additional distributions can be made at any time by an affirmative vote of a majority of the Museum's Board of Trustees and the approval of the OCF Board of Directors. During the year ended June 30, 2011, the Museum received $208,592 in accordance with this agreement ($224,280 in 2010).

The fair value of the Museums' beneficial interest in assets held at OCF is based on information reported to the Museum by OCF.

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, 2011 and 2010. 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.

The carrying value of all other investments, including those held in externally managed funds, is based at quoted market prices and published unit values.

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 on demand. At June 30, 2011 and 2010, such commitments totaled $636,021 and $741,446, respectively. See note 19 for additional discussion.

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, 2011 and 2010 is summarized as follows:

		2011	2010
Interest and dividend income	$	567,784	544,912
Net appreciation in the fair market value of investments		7,063,733	4,133,136
Total investment return	$	7,631,517	4,678,048

6. Beneficial Interest in Perpetual Trusts

The changes in the Museum's beneficial interest in perpetual trusts for the year ended June 30, 2011 are summarized as follows:

		2011	2010
Fair value at beginning of year	$	1,012,887	954,406
Increase in fair value [1]		87,164	58,481
Fair value at end of year	$	1,100,051	1,012,887

[1] The increase in fair value is net of distributions of $48,573 and $43,377 received from these trusts during the years ended June 30, 2011 and 2010, respectively.

7. Property and Equipment

A summary of property and equipment at June 30, 2011 and 2010 is as follows:

		2011	2010
Land and land improvements	$	3,545,955	3,545,955
Belluschi Building		9,267,392	8,498,151
Mark Building		41,946,330	41,861,964
Hoffman Wing		18,892,260	18,892,260
Furniture and equipment		5,361,736	4,636,835
Leasehold improvements		288,790	288,790
		79,302,463	77,723,955
Less accumulated depreciation		(20,544,657)	(19,019,298)
	$	58,757,806	58,704,657

8. Museum Collections

During the years ended June 30, 2011 and 2010, the Museum acquired works of art for a total cost of $159,686 and $280,668, respectively. During these same periods, the Museum accepted donations of art with an estimated value of $5,021,761 and $2,723,630, 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.

9. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2011 and 2010:

		2011	2010
Film Center tuition	$	154,966	171,264
Events and projects		193,145	149,123
Other		116,356	88,173
	$	464,467	408,560

10. Notes Payable

At June 30, 2011 and 2010, the Museum reported the following outstanding financing arrangements:

		2011	2010
Loan agreement	$	8,154,735	9,032,218

The Museum's loan agreement is with Bank of America Merrill Lynch and was originally a line of credit facility for $25,000,000 while renovations were being made to the Mark Building. Principal repayment terms commenced on June 1, 2006. The loan, which has a balloon payment due on January 31, 2013, is secured by the Mark Building. In conjunction with the loan, the Museum has also entered into interest rate swap agreements with Bank of America Merrill Lynch to fix the interest rate risk on portions of the debt.

At June 30, 2011 and 2010, the total amount outstanding under the credit facility was $8,154,735 and $9,032,218, respectively. Under the interest rate swap agreements, the Museum pays a fixed rate of interest of 5.75% on $2,151,784 of the obligation ($2,789,679 in 2010), and 7.05% on $829,236 of the obligation ($1,068,824 in 2010). In return, the Museum receives interest at LIBOR plus 1.25% 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 $5,173,715 at June 30, 2011 and 2010 is based on LIBOR plus 2.00% (2.191% at June 30, 2011 and 2.35% at June 30, 2010).

Continued

The following table summarizes the scheduled maturities of note principal for the years subsequent to June 30, 2011:

Years ending June 30,	
2012	$ 932,857
2013	7,221,878
	$ 8,154,735

The Museum paid a total of $354,421 and $363,196 in interest expense for the years ended June 30, 2011 and 2010, respectively, including payments associated with the interest rate swap agreements previously described.

At June 30, 2011 and 2010, the fair value of the interest rate swaps was a negative $202,664 and $312,082, respectively, reported in the accompanying statement of financial position as "other liabilities." The net change in the fair value of the interest swaps is reported in the accompanying statements of activities as "other income."

The Museum's agreement with the bank permits additional payments of principal and interest at any time prior to January 31, 2013 without penalty. The agreement also contains certain restrictive provisions which require the maintenance of a debt service reserve fund equal to one year's principal and interest payments (replenishable annually), a liquidity ratio of 0.80, and also limit the Museum's ability to incur additional significant direct or contingent liabilities or lease commitments. The debt service reserve fund at June 30, 2011 and 2010 totaled $1,036,562 and $1,091,186, respectively, and is included in cash and cash equivalents.

11. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2011 and 2010, $12,387,513 and $11,194,958 of the Museum's unrestricted net assets, respectively, had been designated by the Board of Trustees for quasi-endowment purposes.

Temporarily Restricted Net Assets

At June 30, 2011, and 2010, temporarily restricted net assets comprised of contributions, grants, and other unexpended revenues and gains restricted by donors and available only for specific program services and future periods, as follows:

	2011	2010
Acquisition of works of art	$ 1,162,294	906,132
General operations	5,724,348	3,618,400
Future periods	40,093	37,408
	$ 6,926,735	4,561,940

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

For the years ended June 30, 2011 and 2010, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2011	2010
Acquisition of works of art	$ 141,110	263,899
Other operational support	4,133,636	3,711,364
	$ 4,274,746	3,975,263

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, 2011 and 2010, the Museum held $32,140,488 and $32,011,052, respectively, in endowment funds. The investment income earned on these permanently restricted net assets is restricted or unrestricted as follows:

	2011	2010
Income restricted for:		
Museum operations	$ 20,966,953	21,097,880
Acquisition of works of art	1,363,467	1,190,267
Income unrestricted	9,810,068	9,722,905
	$ 32,140,488	32,011,052

Cumulative Endowment Losses

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, 2011, the Museum had incurred cumulative investment losses in excess of unappropriated accumulated endowment earnings totaling $750,113 ($3,058,612 at June 30, 2010).

Accordingly, in order to report the losses as required by FASB ASC No. 958-320, 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, 2011:

	Donor-restricted endowment				Board-designated endowment	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endowment
Endowment net assets at beginning of year	$ (3,058,612)	1,534,121	32,011,052	30,486,561	11,194,958	41,681,519
Contributions and bequests	–	2,685	39,064	41,749	89,164	130,913
Investment return	2,308,499	3,251,005	90,372	5,649,876	1,964,625	7,614,501
Appropriation of endowment assets for expenditure	–	(1,491,301)	–	(1,491,301)	(861,234)	(2,352,535)
Endowment net assets at end of year	$ (750,113)	3,296,510	32,140,488	34,686,885	12,387,513	47,074,398

The following summarizes the Museum's donor-restricted and Board-designated endowment-related activities for the year ended June 30, 2010:

	Donor-restricted endowment				Board-designated endowment	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endowment
Endowment net assets at beginning of year	$ (4,121,529)	1,374,371	31,381,918	28,634,760	11,380,171	40,014,931
Contributions and bequests	–	5,126	573,608	578,734	1,000	579,734
Investment return	1,062,917	1,729,117	55,526	2,847,560	1,804,124	4,651,684
Appropriation of endowment assets for expenditure	–	(1,524,493)	–	(1,524,493)	(2,040,337)	(3,564,830)
Transfers [1]	–	(50,000)	–	(50,000)	50,000	–
Endowment net assets at end of year	$ (3,058,612)	1,534,121	32,011,052	30,486,561	11,194,958	41,681,519

[1] During the year ended June 30, 2010, the museum collected $50,000 on pledges associated with a former capital campaign and transferred the proceeds to a Board-designated endowment.

12. 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, 2011 and 2010:

		2011	2010
Museum programs	$	398,490	440,323
Film Center programs		311,959	354,944
	$	710,449	795,267

13. 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:

		2011	2010
Salaries and related costs	$	6,811,568	6,649,800
Contract labor		847,019	616,535
Professional services		71,656	89,375
Exhibition installation		190,711	387,939
Events		223,255	180,754
Acquisition of works of art *(note 8)*		159,686	280,668
Occupancy		841,879	1,034,409
Merchandise		422,019	437,669
Insurance		133,532	135,246
Advertising and marketing		577,311	649,456
Postage and shipping		267,769	346,225
Travel		151,207	161,624
Printing and publications		471,685	327,928
Equipment maintenance		339,421	259,976
Merchant fees		145,640	123,129
Supplies		152,168	131,432
Interest		354,421	363,196
Depreciation		1,525,359	1,736,528
In-kind expenses		710,449	795,267
Other		1,003,812	886,389
	$	15,400,567	15,593,545

Exhibition-related costs in the above table totaled $1,768,263 and $1,950,766 for the years ended June 30, 2011 and 2010, respectively. Exhibition-related costs vary significantly from year to year depending on the number and size of exhibitions installed.

14. Retirement Plan

Effective July 1, 2009, the Museum's previous defined contribution money purchase plan was converted to a retirement plan as described in Section 401(k) of the Internal Revenue Code. Employees may make voluntary contributions to the plan on a pre-tax basis up to the maximum amount allowed by law. Under the plan, the Museum may make discretionary matching contributions up to a predetermined maximum. During the years ended June 30, 2011 and 2010, the Museum did not contribute to the plan.

15. 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. These assets are carried at $4,837,854 at June 30, 2011 and 2010.

At June 30, 2011, the approximate minimum rental commitments under the ground lease described above, for the remaining years of the initial ten years of the lease, are as follows:

Years ending June 30,		
2012	$	100,400
2013		101,400
2014		101,400
2015		101,400
2016		101,400
Thereafter		33,800
	$	539,800

Rent expense associated with this arrangement totaled $98,400 for the years ended June 30, 2011 and 2010.

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 ten-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 tenth 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 ten-year lease period, and 2.3% for each full year remaining of the last five years of the initial ten-year lease period.

16. Other Operating Leases

The Museum leases various other office and program equipment under non-cancellable operating leases expiring at various dates through December 2015.

At June 30, 2011, the approximate minimum rental commitments under these leases are as follows:

Years ending June 30,		
2012	$	119,458
2013		149,647
2014		145,859
2015		54,886
2016		13,740
	$	483,590

Rent expense associated with these lease arrangements totaled $175,483 and $155,386 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 totaled approximately $343,585 and $339,000, respectively.

17. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately $252,078 and $390,615 for the years ended June 30, 2011 and 2010, respectively.

18. 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 are subject to Board approval. There were no related party transactions during the years ended June 30, 2011 or 2010.

19. Fair Value Measurements

At June 30, 2011, the following financial assets and liabilities are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments *(see note 5)*:			
Equity mutual funds:			
Large-cap domestic	$ 6,502,719	–	6,502,719
Small and mid-cap domestic	3,447,633	–	3,447,633
Large-cap international	6,502,570	–	6,502,570
Small-cap international	1,587,270	–	1,587,270
Total equity mutual funds	18,040,192	–	18,040,192
Fixed income mutual funds	8,138,668	–	8,138,668
Real return mutual funds	3,059,247	–	3,059,247
Balanced index mutual fund	41,709	–	41,709
Interests in private equity partnerships:			
Large-cap domestic equity funds [A]	–	4,462,716	4,462,716
Absolute return hedge funds [B]	–	3,765,560	3,765,560
Private equity funds [C]	–	1,664,706	1,664,706
Total interests in private equity partnerships	–	9,892,982	9,892,982
Beneficial interest in assets held at the Oregon Community Foundation	–	3,382,189	3,382,189
Total investments	29,279,816	13,275,171	42,554,987
Pledges receivable *(see note 4)*	–	4,922,454	4,922,454
Beneficial interest in perpetual trusts *(see note 6)*	–	1,100,051	1,100,051
Interest rate swap agreements *(see note 10)*	–	(202,664)	(202,664)
	$ 29,279,816	19,095,012	48,374,828

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

	Fair Value At June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Large-cap domestic equity funds [A]	$ 4,462,716	none	monthly	30 days
Absolute return hedge fund [B]	1,884,539	none	quarterly	70 days
Absolute return hedge fund [B]	1,881,021	none	quarterly	95 days
Private equity funds [C]	1,664,706	636,021	not allowed	n/a

[A] Large-cap domestic equity funds are investments in funds organized as limited partnerships that invest primarily in publicly traded securities.

[B] The absolute return hedge funds are considered to be investments in funds of funds. These investments employ a variety of strategies including absolute return, diversified arbitrage, investment in distressed securities, and various long/short strategies.

[C] The private equity funds are investments in funds organized as limited partnerships which invest in both venture capital and buyouts.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2011 are as follows:

	Investments	Pledges receivable	Beneficial interest in perpetual trusts	Interest rate swap agreements	Total
Fair value at beginning of year	$ 12,932,719	8,309,813	1,012,887	(312,082)	21,943,337
Sale of investments	(1,999,514)	–	–	–	(1,999,514)
Purchase of investments	304,315	–	–	–	304,315
Reinvestment of investment income	124,727	–	–	–	124,727
Net appreciation in the fair value of investments	1,912,924	–	–	–	1,912,924
Receipt of new pledges	–	2,134,489	–	–	2,134,489
Collection of pledge payments	–	(5,377,570)	–	–	(5,377,570)
Changes in the allowance for doubtful collection of receivables	–	(280,633)	–	–	(280,633)
Changes in the unamortized discount associated with pledges receivable	–	136,355	–	–	136,355
Increase in the fair value of perpetual trusts	–	–	87,164	–	87,164
Change in the fair value of interest rate swap agreements	–	–	–	109,418	109,418
Net changes	342,452	(3,387,359)	87,164	109,418	(2,848,325)
Fair value at end of year	$ 13,275,171	4,922,454	1,100,051	(202,664)	19,095,012
	[A]	[B]	[C]	[D]	

[A] The fair value of the Museum's investment in private equity partnerships are based on the net assets value of the Museum's ownership interest in the partner's capital which includes assumptions and methods that are prepared by the General Partners of the limited partnerships and were reviewed by Museum's management. The fair value of the Museum's beneficial interest in assets held at OCF are measured using information provided by OCF and based on the present value of the expected estimated future cash flows, which approximates the value of the underlying assets. See note 5.

[B] The fair value of pledges receivable is based on the expected payment date, using a current discount rate of 1.63%. See note 4.

[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 which approximate the present value of the expected future cash flows. See note 6.

[D] The fair value assigned to the Museum's interest swap agreement is based on mark-to-market value at June 30, 2011 as provided by the bank. See note 10.

Continued

19. Fair Value Measurements, continued

At June 30, 2010, the following financial assets and liabilities are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments *(see note 5)*:			
Equity mutual funds:			
Large-cap domestic	$ 6,499,893	–	6,499,893
Small and mid-cap domestic	3,710,758	–	3,710,758
Large-cap international	3,957,183	–	3,957,183
Small-cap international	886,148	–	886,148
Total equity mutual funds	15,053,982	–	15,053,982
Fixed income mutual funds	5,685,757	–	5,685,757
Real return mutual funds	1,813,903	–	1,813,903
Balanced index mutual fund	38,623	–	38,623
Government bond	181,133	–	181,133
Interests in private equity partnerships:			
Large-cap domestic equity funds [A]	–	4,880,300	4,880,300
Absolute return hedge funds [B]	–	3,528,593	3,528,593
Private equity funds [C]	–	1,551,671	1,551,671
Total interests in private equity partnerships	–	9,960,564	9,960,564
Beneficial interest in assets held at the Oregon Community Foundation	–	2,972,155	2,972,155
	22,773,398	12,932,719	35,706,117
Pledges receivable *(note 4)*	–	8,309,813	8,309,813
Beneficial interest in perpetual trusts *(note 6)*	–	1,012,887	1,012,887
Interest rate swap agreements *(note 10)*	–	(312,082)	(312,082)
	$ 22,773,398	21,943,337	44,716,735

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

	Fair Value At June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Large-cap domestic equity funds [A]	$ 4,880,300	none	monthly	30 days
Absolute return hedge fund [B]	1,754,331	none	quarterly	70 days
Absolute return hedge fund [B]	1,774,262	none	quarterly	95 days
Private equity funds [C]	1,551,671	741,446	not allowed	n/a

[A] Large-cap domestic equity funds are investments in funds organized as limited partnerships that invest primarily in publicly traded securities.

[B] The absolute return hedge funds are considered to be investments in funds of funds. These investments employ a variety of strategies including absolute return, diversified arbitrage, investment in distressed securities, and various long/short strategies.

[C] The private equity funds are investments in funds organized as limited partnerships which invest in both venture capital and buy-outs.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2010 are as follows:

	Investments	Pledges receivable	Beneficial interest in perpetual trusts	Interest rate swap agreements	Total
Fair value at beginning of year	$ 11,005,485	9,754,686	954,406	(345,533)	21,369,044
Sale of investments	(1,689,280)	–	–	–	(1,689,280)
Purchase of investments	1,826,191	–	–	–	1,826,191
Reinvestment of investment income	45,603	–	–	–	45,603
Net appreciation in the fair value of investments	1,744,720	–	–	–	1,744,720
Receipt of new pledges	–	3,429,463	–	–	3,429,463
Collection of pledge payments	–	(4,891,068)	–	–	(4,891,068)
Changes in the allowance for doubtful collection of receivables	–	(24,849)	–	–	(24,849)
Changes in the unamortized discount associated with pledges receivable	–	41,581	–	–	41,581
Increase in the fair value of perpetual trusts	–	–	58,481	–	58,481
Change in the fair value of interest rate swap agreements	–	–	–	33,451	33,451
Net changes	1,927,234	(1,444,873)	58,481	33,451	574,293
Fair value at end of year	$ 12,932,719	8,309,813	1,012,887	(312,082)	21,943,337
	[A]	[B]	[C]	[D]	

[A] The fair value of the Museum's investment in private equity partnerships are based on the net assets value of the Museum's ownership interest in the partner's capital which includes assumptions and methods that are prepared by the General Partners of the limited partnerships and were reviewed by Museum's management. The fair value of the Museum's beneficial interest in assets held at OCF are measured using information provided by OCF and based on the present value of the expected estimated future cash flows, which approximates the value of the underlying assets. See note 5.

[B] The fair value of pledges receivable is based on the expected payment date, using a current discount rate of 1.81%. See note 4.

[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 6.

[D] The fair value assigned to the Museum's interest swap agreement is based on mark-to-market value at June 30, 2010 as provided by the bank. See note 10.

20. Statements of Cash Flows Reconciliation

The following presents a reconciliation of the increase 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):

		2011	2010
Increase in total net assets	$	4,607,875	1,760,931
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
Depreciation		1,525,359	1,736,528
Net appreciation in the fair market value of investments *(note 5)*		(7,063,733)	(4,133,136)
Acquisition of works of art *(note 8)*		159,686	280,668
Proceeds from contributions restricted for long-term investment		(1,574,924)	(1,669,682)
Increase in the fair value of perpetual trusts		(87,164)	(58,481)
Net changes in:			
Accounts receivable		(13,279)	(56,716)
Pledges receivable		3,387,359	1,444,873
Inventories and prepayments		(127,762)	(31,238)
Other assets		18,387	15,377
Accounts payable and accrued expenses		(23,827)	(101,900)
Accrued payroll and related expenses		(120,439)	194,384
Deferred revenues		55,907	45,820
Other liabilities		(109,418)	(33,451)
Total adjustments		(3,973,848)	(2,366,954)
Net cash provided by (used in) operating activities	$	634,027	(606,023)

21. Reclassification of 2010 Comparative Totals

Certain 2010 amounts presented herein have been reclassified to conform to the 2011 presentation.

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GOVERNING BOARD AND MANAGEMENT

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

INQUIRIES AND OTHER INFORMATION

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