GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2012 and 2011
and Report of Independent Accountants

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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 Audit Committee of 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 Audit Committee of 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.

William Whitsell
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, 2012 and 2011, 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, 2012 and 2011, 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 13, 2012

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STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Assets:					
Cash and cash equivalents *(note 5)*	$	3,354,664	791,233	–	4,145,897
Short-term investments *(note 5)*		–	2,681,949	–	2,681,949
Accounts receivable *(note 3)*		133,147	–	–	133,147
Pledges receivable *(note 4)*		1,187,023	526,248	2,809,194	4,522,465
Inventories and prepayments		730,595	–	–	730,595
Other assets		532,794	42,865	–	575,659
Investments *(notes 5 and 10)*		7,721,602	2,082,684	32,204,061	42,008,347
Beneficial interest in perpetual trusts *(note 6)*		–	–	1,077,943	1,077,943
Real estate investments, at cost *(note 16)*		4,837,854	–	–	4,837,854
Property and equipment *(note 7)*		57,650,417	–	–	57,650,417
Total assets	$	76,148,096	6,124,979	36,091,198	118,364,273
Liabilities:					
Accounts payable and accrued expenses		573,194	–	–	573,194
Accrued payroll and related expenses		621,649	–	–	621,649
Deferred revenues *(note 9)*		466,144	–	–	466,144
Other liabilities *(note 10)*		225,994	–	–	225,994
Note payable *(note 10)*		4,721,878	–	–	4,721,878
Due to (from) other funds		(612,038)	612,038	–	–
Total liabilities		5,996,821	612,038	–	6,608,859
Net assets:					
Unrestricted:					
Available for programs and general operations		3,206,892	–	–	3,206,892
Designated by the Board of Trustees *(note 11)*		10,974,904	–	–	10,974,904
Cumulative endowment losses *(note 11)*		(1,796,914)	–	–	(1,796,914)
Net investment in capital assets and real estate investments		57,766,393	–	–	57,766,393
Total unrestricted		70,151,275	–	–	70,151,275
Temporarily restricted *(note 11)*		–	5,512,941	–	5,512,941
Permanently restricted for endowment *(note 11)*		–	–	36,091,198	36,091,198
Total net assets		70,151,275	5,512,941	36,091,198	111,755,414
Commitments and contingencies *(notes 5, 10, 15, 16, 17, and 18)*					
Total liabilities and net assets	$	76,148,096	6,124,979	36,091,198	118,364,273

See accompanying notes to financial statements.

2011			
Unrestricted	Temporarily restricted	Permanently restricted	Total
2,702,658	491,716	119,819	3,314,193
–	2,889,072	–	2,889,072
302,720	–	–	302,720
1,985,885	508,100	2,428,469	4,922,454
526,440	–	–	526,440
563,061	40,007	–	603,068
10,325,353	3,749,302	28,487,149	42,561,804
–	–	1,100,051	1,100,051
4,837,854	–	–	4,837,854
58,757,806	–	–	58,757,806
80,001,777	7,678,197	32,135,488	119,815,462
574,157	–	–	574,157
622,295	–	–	622,295
464,467	–	–	464,467
202,664	–	–	202,664
8,154,735	–	–	8,154,735
(746,462)	751,462	(5,000)	–
9,271,856	751,462	(5,000)	10,018,318
3,651,596	–	–	3,651,596
12,387,513	–	–	12,387,513
(750,113)	–	–	(750,113)
55,440,925	–	–	55,440,925
70,729,921	–	–	70,729,921
–	6,926,735	–	6,926,735
–	–	32,140,488	32,140,488
70,729,921	6,926,735	32,140,488	109,797,144
80,001,777	7,678,197	32,135,488	119,815,462

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Contributions, memberships, and grants	$ 5,520,092	3,001,666	3,959,653	12,481,411
In-kind contributions *(note 12)*	746,976	–	–	746,976
Financial support received from volunteer groups	325,051	–	–	325,051
Admissions	1,887,748	–	–	1,887,748
Museum shop sales	1,395,384	–	–	1,395,384
Rental income	1,407,476	–	–	1,407,476
Tuition and fees	380,250	–	–	380,250
Total investment return *(note 5)*	(594,808)	355,002	(8,943)	(248,749)
Other revenues and gains *(note 13)*	726,171	–	–	726,171
Total revenues and gains	11,794,340	3,356,668	3,950,710	19,101,718
Net assets released from restrictions *(note 11)*	4,770,462	(4,770,462)	–	–
Total revenues, gains, and other support	16,564,802	(1,413,794)	3,950,710	19,101,718
Expenses *(note 14)* **:**				
Program activities:				
Acquisition of art *(note 8)*	547,746	–	–	547,746
Museum programs	10,248,046	–	–	10,248,046
Film center programs	1,870,528	–	–	1,870,528
Total program services	12,666,320	–	–	12,666,320
Supporting activities:				
Management and general	2,860,952	–	–	2,860,952
Fundraising, membership, and development	1,616,176	–	–	1,616,176
Total supporting services	4,477,128	–	–	4,477,128
Total expenses	17,143,448	–	–	17,143,448
Increase (decrease) in net assets	(578,646)	(1,413,794)	3,950,710	1,958,270
Net assets at beginning of year	70,729,921	6,926,735	32,140,488	109,797,144
Net assets at end of year	$ 70,151,275	5,512,941	36,091,198	111,755,414

See accompanying notes to financial statements.

	2011		
Unrestricted	Temporarily restricted	Permanently restricted	Total
3,509,967	3,370,382	39,064	6,919,413
710,449	–	–	710,449
165,945	–	–	165,945
1,151,411	–	–	1,151,411
835,062	–	–	835,062
1,508,599	–	–	1,508,599
453,421	–	–	453,421
4,271,986	3,269,159	90,372	7,631,517
632,625	–	–	632,625
13,239,465	6,639,541	129,436	20,008,442
4,274,746	(4,274,746)	–	–
17,514,211	2,364,795	129,436	20,008,442
159,686	–	–	159,686
9,267,684	–	–	9,267,684
1,826,771	–	–	1,826,771
11,254,141	–	–	11,254,141
2,525,290	–	–	2,525,290
1,621,136	–	–	1,621,136
4,146,426	–	–	4,146,426
15,400,567	–	–	15,400,567
2,113,644	2,364,795	129,436	4,607,875
68,616,277	4,561,940	32,011,052	105,189,269
70,729,921	6,926,735	32,140,488	109,797,144

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	$ 9,639,633	8,810,629
Cash received from admissions and service recipients	3,454,382	2,029,101
Interest and dividends received	797,939	567,784
Other receipts	2,537,227	2,485,227
Cash paid to employees and suppliers	(14,154,473)	(12,904,293)
Interest paid	(286,058)	(354,421)
Net cash provided by operating activities	1,988,650	634,027
Cash flows from investing activities:		
Proceeds from the sale of investments	4,907,042	3,120,188
Purchases of investments	(4,465,333)	(3,688,995)
Reinvestment of investment income	(727,817)	(551,153)
Acquisition of property and equipment	(479,161)	(1,578,508)
Acquisition of works of art *(note 8)*	(547,746)	(159,686)
Net cash used in investing activities	(1,313,015)	(2,858,154)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	3,588,926	1,574,924
Repayment of note principal	(3,432,857)	(877,483)
Net cash provided by financing activities	156,069	697,441
Net increase (decrease) in cash and cash equivalents	831,704	(1,526,686)
Cash and cash equivalents at beginning of year	3,314,193	4,840,879
Cash and cash equivalents at end of year	$ 4,145,897	3,314,193

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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.

More than 51,000 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.

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 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. In the opinion of management, such differences, if any, would not be significant.

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 20). 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 three months or less to be cash equivalents.

Short-term Investments– For purposes of the financial statements, the Museum considers as short-term investments all investments with initial maturities greater than three months which are intended by management to be available to fund operations.

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. Investments in private equity partnerships for which observable prices in active markets do not exist are reported at fair value as described in note 5.

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 $108,369 in 2012 and $98,257 in 2011). All security transactions are recorded on a trade date basis.

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 initially measured at fair 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 10). Amounts receivable or payable under swap agreements are accounted for as adjustments to interest expense on the related debt. The fair value of the swaps at year-end are included in other assets or other liabilities, as the case may be.

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 measurement for 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, deferred revenue, and other liabilities 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.*

Museum Collections – 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 included in prepayments 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 – In accordance with the *Uniform Prudent Management of Institutional Funds Act* ("UPMIFA"), adopted by the State of Oregon effective January 1, 2008, the Board of Trustees has adopted investment and spending policies that preserve the fair value of endowment gifts as of the original date of the 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. For example, 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. As a result, 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.

The following factors are considered by the Trustees 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.

For 2012 and 2011, 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.

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.

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, 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. 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. 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.

Advertising and Marketing Expenses – Advertising and marketing costs are charged as expenses as they are incurred. Advertising and marketing expenses totaled $473,878 and $577,311 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, the Museum held $1,189,876 and $258,110 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, *Income Taxes*, 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, 2012, 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 13, 2012, 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, 2012 and 2011, the following accounts receivable were outstanding:

		2012	2011
Rentals of artwork	$	39,284	58,558
Events		36,223	76,992
Other		57,640	167,170
	$	133,147	302,720

4. Pledges Receivable

Pledges receivable at June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Donor-restricted endowments	$	3,210,000	2,735,839
Museum operations and programs		1,929,461	2,699,571
		5,139,461	5,435,410
Less discount		(133,964)	(109,908)
Less allowance for doubtful collection		(483,032)	(403,048)
	$	4,522,465	4,922,454

Unconditional promises to give which are due in more than one year are reflected at the present value of estimated future cash flows using discount rates of 1.87% in 2012, and 1.63% in 2011.

Amounts due at June 30, 2012 and 2011, are as follows:

		2012	2011
Unconditional promises expected to be collected in:			
Less than one year	$	3,039,561	3,522,915
One year to five years		2,099,900	1,902,495
Over five years		–	10,000
	$	5,139,461	5,435,410

5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2012 and 2011 comprised the following:

		2012	2011
Equity mutual funds	$	16,711,421	18,047,009
Fixed income mutual funds [1]		8,764,359	8,138,668
Corporate bonds and notes		2,681,949	2,889,072
Real return mutual funds		3,116,117	3,059,247
Balanced index mutual fund		49,117	41,709
Interests in private equity partnerships		10,307,273	9,892,982
Beneficial interest in assets held by the Oregon Community Foundation		3,060,060	3,382,189
		44,690,296	45,450,876
Money market funds and other cash equivalents		4,145,897	3,314,193
	$	48,836,193	48,765,069

[1] The fixed income portfolio serves as security for the Museum's outstanding loan balance totaling $4,721,878 at June 30, 2012. See note 10.

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

		2012	2011
Cash and cash equivalents	$	4,145,897	3,314,193
Short-term investments		2,681,949	2,889,072
Investments		42,008,347	42,561,804
	$	48,836,193	48,765,069

Continued

The Museum has established a fund at the Oregon Community Foundation ("OCF"), 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, 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, 2012 and 2011 are summarized as follows:

		2012	2011
Balance at beginning of year	$	3,382,189	2,972,155
Plus change in the fair value of the funds		(129,820)	618,626
Less the distribution of investment return to the Museum		(192,309)	(208,592)
Balance at end of year	$	3,060,060	3,382,189

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 OCF's Board of Directors. During the year ended June 30, 2012, the Museum received $192,309 in accordance with this agreement ($208,592 in 2011).

The fair value of the Museum's 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 values of its alternative investments represent reasonable estimates of fair values at June 30, 2012 and 2011. 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 on 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, 2012 and 2011, such commitments totaled $461,326 and $636,021, respectively. See note 20 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, 2012 and 2011 is summarized as follows:

		2012	2011
Interest and dividend income	$	797,939	567,784
Net appreciation (decline) in the fair market value of investments		(1,046,688)	7,063,733
Total investment return	$	(248,749)	7,631,517

6. Beneficial Interest in Perpetual Trusts

The changes in the Museum's beneficial interest in perpetual trusts for the years ended June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Fair value at beginning of year	$	1,100,051	1,012,887
Increase (decrease) in fair value [1]		(22,108)	87,164
Fair value at end of year	$	1,077,943	1,100,051

[1] The increase (decrease) in fair value shown is net of distributions of $23,639 and $48,573 received from these trusts during the years ended June 30, 2012 and 2011, respectively.

7. Property and Equipment

A summary of property and equipment at June 30, 2012 and 2011 is as follows:

		2012	2011
Land and land improvements	$	3,545,955	3,545,955
Main building		9,270,657	9,267,392
Mark building		41,968,342	41,946,330
Hoffman wing		18,892,260	18,892,260
Furniture and equipment		5,725,771	5,361,736
Leasehold improvements		414,795	288,790
		79,817,780	79,302,463
Less accumulated Depreciation and amortization		(22,167,363)	(20,544,657)
	$	57,650,417	58,757,806

8. Museum Collections

During the years ended June 30, 2012 and 2011, the Museum acquired works of art for a total cost of $547,746 and $159,686, respectively. During these same periods, the Museum accepted donations of art with an estimated value of $3,211,330 and $5,021,761, 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, 2012 and 2011:

		2012	2011
Film Center tuition	$	151,415	154,966
Events and projects		200,546	193,145
Other		114,183	116,356
	$	466,144	464,467

10. Note Payable

At June 30, 2012 and 2011, the Museum reported the following outstanding financing arrangement:

	2012	2011
Loan agreement	$ 4,721,878	8,154,735

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.

On April 25, 2012, the Museum renegotiated the loan agreement with the following effects:

- The bank released its security over the Mark Building in exchange for security over certain of the Museum's unrestricted investments. See note 5;
- The term of the loan was extended from January of 2013 to June of 2015;
- Principal repayments will continue at approximately the current level throughout the revised term;
- The Museum made an early repayment of $2,500,000;
- The previous liquidity covenant and debt service reserve were replaced by a requirement for the Museum's adjusted unrestricted deficit not to exceed $1,000,000 on a rolling 12 month basis, calculated semi-annually;
- The floating interest rate increased from LIBOR plus 2.00% to LIBOR plus 2.50%

At June 30, 2012 and 2011, the total amount outstanding under this credit facility was $4,721,878 and $8,154,735, respectively.

In conjunction with the loan, the Museum also has 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, 2012 and 2011, the fair value of the interest rate swaps was a negative $99,989 and $202,664, respectively, and is included in the accompanying statement of financial position in "other liabilities." The net change in the fair value of the interest swaps is reported in the accompanying statements of activities as "other income". See note 13.

The Museum paid a total of $286,058 and $354,421 in interest expense for the years ended June 30, 2012 and 2011, respectively, including payments associated with the interest rate swap agreements previously described.

Under the interest rate swap agreements, the Museum pays a fixed rate of interest of 5.75% on $1,475,957 of the obligation ($2,151,784 in 2011), and 7.05% on $572,206 of the obligation ($829,236 in 2011). 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 $2,673,715 at June 30, 2012 is based on LIBOR plus 2.50% (2.739% at June 30, 2012). Interest on the balance of $5,173,715 at June 30, 2011 was based on LIBOR plus 2.00% (2.191% at June 30, 2011).

The following table summarizes the maturities of note principal for the years subsequent to June 30, 2012:

Year ending June 30, 2012	
2013	$ 992,146
2014	1,056,017
2015	2,673,715
	$ 4,721,878

The Museum's agreement with the bank permits additional payments of principal and interest at any time prior to June 30, 2015 without penalty. The agreement also contains certain restrictive provisions which limit the Museum's ability to incur additional significant direct or contingent liabilities or lease commitments.

11. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2012 and 2011, $10,974,904 and $12,387,513 of the Museum's unrestricted net assets, respectively, had been designated by the Board of Trustees for the following purposes:

	2012	2011
Quasi-endowment	$ 10,239,855	12,387,513
Specific operating expenses	541,000	–
Long-term initiatives	194,049	–
	$ 10,974,904	12,387,513

Temporarily Restricted Net Assets

At June 30, 2012 and 2011, temporarily restricted net assets comprised contributions, grants, and other unexpended revenues and gains restricted by donors and available only for specific program services and future periods, as follows:

	2012	2011
Acquisition of works of art	$ 934,203	1,162,294
Specific program expenses	4,535,873	5,724,348
Future periods	42,865	40,093
	$ 5,512,941	6,926,735

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

Net Assets Released from Restrictions

For the years ended June 30, 2012 and 2011, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2012	2011
Acquisition of works of art	$ 479,941	141,110
Other operational support	4,290,521	4,133,636
	$ 4,770,462	4,274,746

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, 2012 and 2011, the Museum held $36,091,198 and $32,140,488, respectively, in endowment funds. These funds earn investment income that is restricted or unrestricted as follows:

	2012	2011
Income restricted for:		
Specific program expenses	$ 24,934,770	20,966,953
Acquisition of works of art	1,368,467	1,363,467
Income unrestricted	9,787,961	9,810,068
	$ 36,091,198	32,140,488

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, 2012, the Museum had incurred cumulative investment losses in excess of unappropriated accumulated endowment earnings totaling $1,796,914 ($750,113 at June 30, 2011).

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.

Continued

The following summarizes the Museum's donor-restricted and Board-designated endowment-related activities for the year ended June 30, 2012:

	Donor-restricted endowment				Board-designated endowment	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endowment
Endowment net assets at beginning of year	$ (750,113)	3,296,510	32,140,488	34,686,885	12,387,513	47,074,398
Contributions and bequests	–	2,772	3,959,653	3,962,425	188,453	4,150,878
Investment return	(854,492)	315,667	(8,943)	(547,768)	252,239	(295,529)
Appropriation of endowment assets for expenditure (see below)	(192,309)	(1,548,168)	–	(1,740,477)	(2,588,350)	(4,328,827)
Endowment net assets at end of year	$ (1,796,914)	2,066,781	36,091,198	36,361,065	10,239,855	46,600,920

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	2,517,091	3,251,005	90,372	5,858,468	1,756,033	7,614,501
Appropriation of endowment assets for expenditure (see below)	(208,592)	(1,491,301)	–	(1,699,893)	(652,642)	(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

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2012 and 2011:

	2012	2011
Appropriation of 6% spending rate to fund operations	$ (2,014,420)	(1,973,358)
Spending rate distribution from investments held by OCF	(192,309)	(208,592)
Utilization of Board-designated endowment to fund repayments of note payable	(2,000,000)	(170,585)
Utilization of Board-designated endowment to purchase fixed assets	(122,098)	–
Total appropriation	$ (4,328,827)	(2,352,535)

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, 2012 and 2011:

		2012	2011
Museum programs	$	290,233	398,490
Film Center programs		420,587	311,959
Additions to fixed assets		36,156	–
	$	746,976	710,449

13. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2012 and 2011:

		2012	2011
Rental sales gallery	$	203,213	225,956
Energy efficiency incentives and tax credits		257,948	154,770
Change in the fair value of interest rate swaps		102,675	109,418
Other		162,335	142,481
	$	726,171	632,625

14. 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 for the years ended June 30, 2012 and 2011 are summarized as follows:

		2012	2011
Salaries and related costs	$	7,505,730	6,811,568
Contract services		713,477	847,019
Professional services		169,826	150,679
Exhibition installation		320,748	275,126
Events		410,630	290,099
Acquisition of works of art *(note 8)*		547,746	159,686
Occupancy		903,725	841,879
Merchandise		672,785	442,206
Insurance		217,696	133,532
Advertising and marketing		473,878	577,311
Postage and shipping		464,706	267,769
Travel		213,902	151,207
Printing and publications		376,870	471,807
Equipment maintenance		519,178	480,982
Merchant fees		193,459	145,640
Supplies		150,313	152,046
Interest		286,058	354,421
Depreciation and amortization		1,622,706	1,525,359
In-kind expenses		710,820	710,449
Other		669,195	611,782
	$	17,143,448	15,400,567

Exhibition-related costs in the above table totaled $2,129,939 and $1,768,263 for the years ended June 30, 2012 and 2011, respectively. Exhibition-related costs vary significantly from year to year, depending on the number and size of exhibitions installed.

15. Retirement Plan

The Museum sponsors a defined contribution retirement savings plan established under 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, 2012 and 2011, the Museum did not contribute to the plan.

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. These assets are carried at $4,837,854 at June 30, 2012 and 2011.

At June 30, 2012, 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,		
2013	$	101,400
2014		101,400
2015		101,400
2016		101,400
2017		33,800
	$	439,400

Rent expense associated with this arrangement totaled $100,400 and $98,400 for the years ended June 30, 2012 and 2011, respectively.

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.

17. Other Operating Leases

The Museum leases various office and program equipment, and a storage space under non-cancellable operating leases expiring at various dates through November of 2022.

At June 30, 2012, the approximate future minimum rental commitments under these leases are as follows:

Years ending June 30,		
2013	$	201,865
2014		181,023
2015		99,034
2016		81,182
2017		51,930
Thereafter		268,664
	$	883,698

Rent expense associated with these lease arrangements totaled $186,411 and $175,483 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 totaled approximately $343,500 and $343,585, respectively.

18. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately $234,240 and $252,078 for the years ended June 30, 2012 and 2011, respectively.

19. 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. For example, during the year ended June 30, 2012, the Museum's lease for offsite storage space expired. A replacement site was leased from a company owned by a family member of a Trustee. After taking independent professional advice and concluding that the lease terms were at a fair market rent, the lease was approved by the Executive Committee of the Board. No amounts were paid under this agreement during the year ended June 30, 2012. The amount of future lease commitments is included in the disclosures found at note 17. There were no related party transactions during the year ended June 30, 2011.

20. Fair Value Measurements

At June 30, 2012, 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	$ 6,196,421	–	6,196,421
Small and mid-cap domestic	3,185,336	–	3,185,336
Large-cap international	6,615,523	–	6,615,523
Small-cap international	714,141	–	714,141
Total equity mutual funds	16,711,421	–	16,711,421
Fixed income mutual funds	8,764,359	–	8,764,359
Corporate bonds and notes	2,681,949	–	2,681,949
Real return mutual funds	3,116,117	–	3,116,117
Balanced index mutual fund	49,117	–	49,117
Interests in private equity partnerships:			
Large-cap domestic equity funds [A]	–	4,476,984	4,476,984
Absolute return hedge funds [B]	–	3,868,340	3,868,340
Private equity funds [C]	–	1,961,949	1,961,949
Total interests in private equity partnerships	–	10,307,273	10,307,273
Beneficial interest in assets held at the Oregon Community Foundation	–	3,060,060	3,060,060
Total investments	31,322,963	13,367,333	44,690,296
Pledges receivable *(see note 4)*	–	4,639,457	4,639,457
Beneficial interest in perpetual trusts *(see note 6)*	–	1,077,943	1,077,943
Interest rate swap agreements *(see note 10)*	–	(99,989)	(99,989)
	$ 31,322,963	18,984,744	50,307,707

Commitments and redemption schedules for those investments for which fair value is based on net asset values at June 30, 2012 are as follows:

	Fair Value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Large-cap domestic equity funds [A]	$ 4,476,984	none	monthly	30 days
Absolute return hedge fund [B]	1,958,176	none	quarterly	70 days
Absolute return hedge fund [B]	1,910,164	none	quarterly	95 days
Private equity funds [C]	1,961,949	461,326	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] 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] Private equity funds are investments in funds organized as limited partnerships that invest in both venture capital and buyouts.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2012 are as follows:

		Investments	Pledges receivable	Beneficial interest in perpetual trusts	Interest rate swap agreements	Total
Fair value at beginning of year	$	13,275,171	4,922,454	1,100,051	(202,664)	19,095,012
Sale of investments		(502,298)	–	–	–	(502,298)
Purchase of investments		294,695	–	–	–	294,695
Reinvestment of investment income		59,973	–	–	–	59,973
Net appreciation in the fair value of investments		239,792	–	–	–	239,792
Receipt of new pledges		–	3,883,245	–	–	3,883,245
Collection of pledge payments		–	(4,062,202)	–	–	(4,062,202)
Changes in the allowance for doubtful collection of receivables		–	(79,984)	–	–	(79,984)
Changes in the unamortized discount associated with pledges receivable		–	(24,056)	–	–	(24,056)
Decrease in the fair value of perpetual trusts		–	–	(22,108)	–	(22,108)
Change in the fair value of interest rate swap agreements		–	–	–	102,675	102,675
Net changes		92,162	(282,997)	(22,108)	102,675	(110,268)
Fair value at end of year	$	13,367,333	4,639,457	1,077,943	(99,989)	18,984,744
		[A]	[B]	[C]	[D]	

[A] The fair value of the Museum's investment in private equity partnerships is based on the net asset 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 is 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 1.87%. 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 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, 2012, as provided by the bank. See note 10.

Continued

20. Fair Value Measurements, Continued

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	1,594,087	–	1,594,087
Total equity mutual funds	18,047,009	–	18,047,009
Fixed income mutual funds	8,138,668	–	8,138,668
Corporate bonds and notes	2,889,072	–	2,889,072
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	32,175,705	13,275,171	45,450,876
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)
	$ 32,175,705	19,095,012	51,270,717

Commitments and redemption schedules for those investments for which fair value at June 30, 2011 is 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] 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] Private equity funds are investments in funds organized as limited partnerships that 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 is based on the net asset 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 is 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 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.

21. 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 operating activities (as reported on the statements of cash flows):

	2012	2011
Increase in total net assets	$ 1,958,270	4,607,875
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,622,706	1,525,359
Net (appreciation) decline in the fair market value of investments *(note 5)*	1,046,688	(7,063,733)
Acquisition of works of art *(note 8)*	547,746	159,686
Proceeds from contributions restricted for long-term investment	(3,588,926)	(1,574,924)
(Increase) decrease in the fair value of perpetual trusts	22,108	(87,164)
In-kind donation of equipment *(note 12)*	(36,156)	–
Net changes in:		
Accounts receivable	169,573	(13,279)
Pledges receivable	399,989	3,387,359
Inventories and prepayments	(204,155)	(127,762)
Other assets	27,409	18,387
Accounts payable and accrued expenses	(963)	(23,827)
Accrued payroll and related expenses	(646)	(120,439)
Deferred revenues	1,677	55,907
Other liabilities	23,330	(109,418)
Total adjustments	30,380	(3,973,848)
Net cash provided by operating activities	$ 1,988,650	634,027

22. Reclassification of 2011 Totals

Certain 2011 amounts presented herein have been reclassified to conform to the 2012 presentation.

■

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