Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2010 and 2009
and Report of Independent Accountants

TABLE OF CONTENTS

Report of the Treasurer

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

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

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

James H. Winkler
Treasurer
Board of Trustees
Portland Art Museum

GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Portland Art Museum:

We have audited the accompanying statements of financial position of the Portland Art Museum as of June 30, 2010 and 2009, 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, 2010 and 2009, 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.

September 22, 2010

808 SW Third Avenue, Suite 700 Portland, Oregon 97204 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

		2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2009
Assets:					
Cash and cash equivalents *(notes 6 and 11)*	$ 2,846,177	2,817,123	487,240	6,150,540	5,633,185
Accounts receivable *(note 4)*	289,441	–	–	289,441	232,725
Pledges receivable *(note 5)*	3,938,696	406,788	3,964,329	8,309,813	9,754,686
Inventories and prepayments	395,678	3,000	–	398,678	367,440
Other assets	584,047	37,408	–	621,455	636,832
Investments, at market value *(note 6)*	7,868,325	1,542,601	26,546,596	35,957,522	34,010,787
Beneficial interest in perpetual trusts *(note 7)*	–	–	1,012,887	1,012,887	954,406
Real estate investments, at cost *(note 16)*	4,837,854	–	–	4,837,854	4,837,854
Property and equipment *(notes 8 and 11)*	58,704,657	–	–	58,704,657	60,303,104
Total assets	$ 79,464,875	4,806,920	32,011,052	116,282,847	116,731,019
Liabilities:					
Accounts payable and accrued expenses	588,652	9,332	–	597,984	699,884
Accrued payroll and related expenses	742,734	–	–	742,734	548,350
Deferred revenues *(note 10)*	408,560	–	–	408,560	362,740
Other liabilities *(note 11)*	312,082	–	–	312,082	345,533
Notes payable *(note 11)*	9,032,218	–	–	9,032,218	11,346,174
Due from (to) other funds	(235,648)	235,648	–	–	–
Total liabilities	10,848,598	244,980	–	11,093,578	13,302,681
Net assets:					
Unrestricted:					
Available for programs and general operations	5,969,638	–	–	5,969,638	6,843,390
Designated by the Board of Trustees *(note 12)*	11,194,958	–	–	11,194,958	11,380,171
Cumulative endowment losses *(note 12)*	(3,058,612)	–	–	(3,058,612)	(4,121,529)
Net investment in capital assets and real estate investments	54,510,293	–	–	54,510,293	53,794,784
Total unrestricted	68,616,277	–	–	68,616,277	67,896,816
Temporarily restricted *(note 12)*	–	4,561,940	–	4,561,940	4,149,604
Permanently restricted for endowment *(note 12)*	–	–	32,011,052	32,011,052	31,381,918
Total net assets	68,616,277	4,561,940	32,011,052	105,189,269	103,428,338
Commitments and contingencies *(notes 6, 11, 14, 16, 17, and 18)*					
Total liabilities and net assets	$ 79,464,875	4,806,920	32,011,052	116,282,847	116,731,019

See accompanying notes to financial statements.

P O R T L A N D   A R T   M U S E U M

STATEMENTS OF ACTIVITIES

Y E A R S   E N D E D   J U N E   3 0 ,   2 0 1 0   A N D   2 0 0 9

		2010			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support:					
Contributions, memberships and grants	$	4,175,330	2,634,262	573,608	7,383,200
In-kind contributions *(note 13)*		795,267	–	–	795,267
Financial support received from volunteer groups		224,875	–	–	224,875
Admissions		1,258,931	–	–	1,258,931
Museum shop sales		829,999	–	–	829,999
Total investment return *(note 6)*		2,869,185	1,753,337	55,526	4,678,048
Other		2,184,156	–	–	2,184,156
Total revenues and gains		12,337,743	4,387,599	629,134	17,354,476
Net assets released from restrictions *(note 12)*		3,975,263	(3,975,263)	–	–
Total revenues, gains and other support		16,313,006	412,336	629,134	17,354,476
Expenses *(note 15)* **:**					
Program activities:					
Acquisition of art *(note 9)*		280,668	–	–	280,668
Museum programs		9,157,941	–	–	9,157,941
Film center programs		1,862,862	–	–	1,862,862
Total program services		11,301,471	–	–	11,301,471
Supporting activities:					
Management and general		2,794,762	–	–	2,794,762
Fundraising, membership and development		1,497,312	–	–	1,497,312
Total supporting services		4,292,074	–	–	4,292,074
Total expenses		15,593,545	–	–	15,593,545
Increase (decrease) in net assets		719,461	412,336	629,134	1,760,931
Reclassification of endowment assets based on a change in the law governing the management of endowment funds *(note 3)*		–	–	–	–
Cumulative effect of the adoption of the fair value option *(note 3)*		–	–	–	–
Net assets at beginning of year		67,896,816	4,149,604	31,381,918	103,428,338
Net assets at end of year	$	68,616,277	4,561,940	32,011,052	105,189,269

See accompanying notes to financial statements.

2009			
Unrestricted	Temporarily restricted	Permanently restricted	Total
4,439,519	1,628,842	1,972,155	8,040,516
836,638	–	–	836,638
242,688	–	–	242,688
1,079,639	–	–	1,079,639
828,043	–	–	828,043
(6,300,051)	(859,702)	(4,339)	(7,164,092)
2,026,911	–	–	2,026,911
3,153,387	769,140	1,967,816	5,890,343
3,449,071	(3,449,071)	–	–
6,602,458	(2,679,931)	1,967,816	5,890,343
252,070	–	–	252,070
9,442,718	–	–	9,442,718
1,739,287	–	–	1,739,287
11,434,075	–	–	11,434,075
3,236,060	–	–	3,236,060
1,760,726	–	–	1,760,726
4,996,786	–	–	4,996,786
16,430,861	–	–	16,430,861
(9,828,403)	(2,679,931)	1,967,816	(10,540,518)
(1,159,191)	1,159,191	–	–
129,486	14,596	97,377	241,459
78,754,924	5,655,748	29,316,725	113,727,397
67,896,816	4,149,604	31,381,918	103,428,338

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Cash received from contributors, grantors and members	$ 7,324,785	7,766,808
Cash received from admissions and service recipients	2,078,034	2,103,078
Interest and dividends received	544,912	836,269
Other receipts	2,150,705	2,372,444
Cash paid to employees and suppliers	(12,341,263)	(13,097,292)
Interest paid	(363,196)	(528,103)
Net cash used in operating activities	(606,023)	(546,796)
Cash flows from investing activities:		
Purchases of investments	(3,386,191)	(84,920)
Reinvestment of investment income	(502,008)	(800,497)
Proceeds from the sale of investments	6,074,600	2,222,440
Acquisition of works of art *(note 9)*	(280,668)	(252,070)
Acquisition of property and equipment	(138,081)	(68,170)
Net cash provided by investing activities	1,767,652	1,016,783
Cash flows from financing activities:		
Proceeds from contributions restricted to long-term investment	1,669,682	2,505,664
Repayment of note principal	(2,313,956)	(4,460,983)
Net cash used in financing activities	(644,274)	(1,955,319)
Net increase (decrease) in cash and cash equivalents	517,355	(1,485,332)
Cash and cash equivalents at beginning of year	5,633,185	7,118,517
Cash and cash equivalents at end of year	$ 6,150,540	5,633,185

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

1. Organization

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

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
- Contributions and grants 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 $106,707 in 2010 and $122,486 in 2009). All security transactions are recorded on a trade date basis. Gains and losses on investments are generally reported as increases or decreases in unrestricted net assets unless explicit donor stipulations or law restrict their use.

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

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

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

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

Inventories – Inventories, which consist primarily of educational materials and other items held for sale in the Museum's gift shop, are carried at the lower of cost or 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 fifty years for buildings and five 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 50,000 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.

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, *Investments – Debt and Equity Securities*, 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 2010 and 2009, 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, $2,065,996 and $2,182,062 were appropriated to current operations during the years ended June 30, 2010 and 2009, respectively. In addition the Board of Trustees authorized withdrawals of an additional $1,274,554 and $2,000,000 from Board-designated endowment to underwrite payments made on notes payable during the years ended June 30, 2010 and 2009, respectively. Finally, the Museum also received $224,280 and $239,036 in distributions from the investments held by the Oregon Community Foundation during the years ended June 30, 2010 and 2009, 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 Promotional Expenses – Advertising and promotional costs are charged as expenses as they are incurred. Advertising and marketing expenses totaled $649,456 and $630,616 for the years ended June 30, 2010 and 2009, 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 checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC up to $250,000 per depositor, per insured bank, for each account ownership category. In addition, the FDIC's temporary Transaction Account Guarantee ("TAG") Program counts at participating FDIC-insured institutions. This unlimited protection is available (through December 31, 2010) only at insured depository institutions that continue to participate in the TAG Program. Beginning January 1, 2011 through December 31, 2012, deposits held in non-interest-bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

At June 30, 2010 and 2009, the Museum held $4,037,647 and $5,344,025, 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 and comparable state law. The Museum's public charity status is derived from Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events,* subsequent events have been evaluated by management through September 22, 2010, 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. New Accounting Pronouncements

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

- FASB ASC No. 820, *Fair Value Measurements*, was issued by the Financial Accounting Standards Board ("FASB") in September of 2006. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. The pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. See note 19.

- FASB ASC No. 825-10, *Financial Instruments,* was issued by the Financial Accounting Standards Board ("FASB") in February of 2007. This standard permits organizations to irrevocably elect to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in its measure of operations. Such accounting is optional and is generally applied instrument by instrument. During the year ended June 30, 2009, the Museum adopted FASB ASC No. 825-10 for all contributions and grants receivable. Implementation of this new accounting standard resulted in a cumulative effect of the change through June 30, 2008 totaling $241,459. The change in net assets during the years ended June 30, 2009 resulting from the implementation of this new standard was minimal.

- FASB ASC No. 958-205, *Presentation of Financial Statements*, was issued in August of 2008. This standard is intended to improve the quality and consistency of financial reporting of endowments held by nonprofit organizations, and provides specific guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. During the year ended June 30, 2009, implementation of this new accounting standard resulted in the reclassification of $1,159,191 in unappropriated endowment assets from unrestricted net assets to temporarily restricted net assets. FASB ASC No. 958-205 also requires additional disclosures about endowments (both donor-restricted and Board-designated funds). See note 12.

No new accounting standards were adopted during the year ended June 30, 2010.

4. Accounts Receivable

At June 30, 2010 and 2009, the following accounts receivable were outstanding:

		2010	2009
Rentals of artwork	$	62,043	65,348
Events and other		227,398	167,377
	$	289,441	232,725

5. Pledges Receivable

Pledges receivable at June 30, 2010 and 2009 are summarized as follows:

		2010	2009
Donor-restricted endowments	$	4,092,243	5,222,435
Museum operations and programs		4,586,248	4,917,662
		8,678,491	10,140,097
Less discount		(246,263)	(287,844)
Less allowance for doubtful collection		(122,415)	(97,567)
	$	8,309,813	9,754,686

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.81% in 2010, and 2.33% in 2009.

Amounts due at June 30, 2010 and 2009, are as follows:

		2010	2009
Unconditional promises expected to be collected in:			
Less than one year	$	4,528,938	3,679,828
One year to five years		4,119,553	6,287,269
Over five years		30,000	173,000
	$	8,678,491	10,140,097

6. Investable Assets and Investment Return

Investments, including cash equivalents, as of June 30, 2010 and 2009 comprised the following:

		2010	2009
Equity mutual funds	$	15,092,605	15,126,185
Fixed income mutual funds		5,685,757	4,340,946
Other mutual funds		1,813,903	1,046,622
Government bonds		181,133	45,896
Interests in private equity partnerships		9,960,564	8,116,732
Money market funds and other cash equivalents		6,401,945	8,078,839
Investments held by the Oregon Community Foundation		2,972,155	2,888,752
	$	42,108,062	39,643,972

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

		2010	2009
Cash and cash equivalents	$	6,150,540	5,633,185
Investments		35,957,522	34,010,787
	$	42,108,062	39,643,972

Under the terms of its agreement with the Oregon Community Foundation, the Museum receives an annual distribution of investment return equal to 6.0% of the fair market value of the fund, calculated in accordance with the Oregon Community Foundation's spending policies (currently based on a 13-quarter market value average). Additional distributions can be made at any time by an affirmative vote of the majority of the Museum's Board of Trustees and the approval of the Oregon Community Foundation. During the year ended June 30, 2010, the Museum received $224,280 in accordance with this agreement ($239,037 in 2009).

The market value of the funds held at the Oregon Community Foundation is based on information reported to the Museum by the Oregon Community Foundation.

Investments in private equity partnerships have been valued by the general partners of the partnerships and reported to the Museum. A portion of these investments are in non-marketable securities for which there are no readily obtainable market values. Values for these investments, which are generally subject to certain withdrawal restrictions, are provided by the general partner and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. The Museum believes that the stated value of its alternative investments represents a reasonable estimate of fair value at June 30, 2010 and 2009. 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, 2010 and 2009, such commitments totaled $741,446 and $992,637, respectively.

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

Total investment return for the years ended June 30, 2010 and 2009 is summarized as follows:

		2010	2009
Interest and dividend income	$	544,912	836,269
Net appreciation (decline) in the fair market value of investments		4,133,136	(8,000,361)
Total investment return	$	4,678,048	(7,164,092)

7. Beneficial Interest in Perpetual Trusts

The changes in the Museum's beneficial interest in perpetual trusts for the year ended June 30, 2010 are summarized as follows:

		2010
Fair value at beginning of year	$	954,406
Increase in fair value		58,481
Fair value at end of year	$	1,012,887

The Museum received $43,377 and $29,295 in distributions from these trusts during the years ended June 30, 2010 and 2009, respectively.

8. Property and Equipment

A summary of property and equipment at June 30, 2010 and 2009 is as follows:

		2010	2009
Land and land improvements	$	3,545,955	3,545,955
Belluschi Building		8,498,151	8,498,151
Mark Building		41,839,166	41,839,166
Hoffman Wing		18,892,260	18,892,260
Furniture and equipment		4,603,714	4,521,552
Leasehold improvements		344,709	288,790
		77,723,955	77,585,874
Less accumulated depreciation		(19,019,298)	(17,282,770)
	$	58,704,657	60,303,104

9. Museum Collections

During the years ended June 30, 2010 and 2009, the Museum acquired works of art for a total cost of $280,668 and $252,070, respectively. During these same periods, the Museum accepted donations of art with an estimated value of $2,723,630 and $5,650,232, respectively. Pursuant to Museum policies, purchases of art are recorded as expenses in the statement of activities; no value is reported for the in-kind contribution of art.

10. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2010 and 2009:

		2010	2009
Film Center tuition	$	171,264	148,562
Events and projects		149,123	164,973
Other		88,173	49,205
	$	408,560	362,740

11. Notes Payable

At June 30, 2010 and 2009, the Museum reported the following outstanding financing arrangements:

		2010	2009
Loan agreement	$	9,032,218	11,346,174

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. The facility closed and the principal repayment terms commenced on June 1, 2006. The Museum also has entered into interest rate swap agreements to fix the interest rate risk on portions of the debt.

On April 27, 2010, the Museum renegotiated the loan agreement with the following effects:

- The bank waived the Museum's previous non-compliance with certain liquidity ratio covenants of the previous agreement;
- The loan, which was previously unsecured, became secured by the Mark Building;
- Principal repayments on the portion of the loan to which a floating rate of interest applies were suspended until January 31, 2013, on which date the remaining principal balance becomes due;
- The floating interest rate increased from LIBOR plus 1.25% to LIBOR plus 2.00%;
- The liquidity ratio and other covenants were amended (see more in the following paragraphs); and
- The Museum was required to move its principal depository accounts to the bank.

At June 30, 2010, $9,032,218 was outstanding under the credit facility. The agreement provides that the Museum will pay a fixed rate of interest equal to 5.75% on $2,789,679 of the obligation, and 7.05% on $1,068,824 of the obligation. In return, under the interest rate swap agreements, the Museum receives the actual variable rate paid on the note based on the notional principal amount outstanding. Amounts receivable or payable under the agreements are accounted for as adjustments to interest expense. Interest on the remaining balance of $5,173,715 at June 30, 2010 is based on LIBOR plus 2.00% (2.35% at June 30, 2010).

At June 30, 2009, $11,346,174 was outstanding under the previous agreement, with $3,391,504 carrying interest at a fixed rate of 5.75%, $1,292,029 at a fixed interest rate of 7.05%, with the remaining balance of $6,662,641 at June 30, 2009 at a rate based on LIBOR plus 1.25% (1.57% at June 30, 2009).

Additional payments of principal and interest also can be made at any time prior to January 31, 2013 without penalty. At June 30, 2010 and 2009, the fair value of the interest rate swaps was a negative $312,082 and $345,533, respectively. The net change in the fair value of the interest swaps has been reported in the accompanying statements of activities in the other income category.

Finally, the Museum's agreement with the bank contains certain restrictive provisions that require the maintenance of a debt service reserve fund equal to one year's principal and interest payments, replenishable annually, a liquidity ratio of 0.80, and also limits the Museum's ability to incur additional significant direct or contingent liabilities or lease commitments. The debt service reserve fund at June 30, 2010 totaled $1,091,186 and is included in cash and cash equivalents.

The following table summarizes the maturities of note principal for the three years subsequent to June 30, 2010 and thereafter:

Years ending June 30,		
2011	$	877,483
2012		932,857
2013		7,221,878
	$	9,032,218

The Museum paid a total of $363,196 and $528,103 in interest expense for the years ended June 30, 2010 and 2009, respectively, including payments associated with the interest rate swap agreements previously described.

12. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2010 and 2009, $11,194,958 and $11,380,171 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, 2010, and 2009, 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:

		2010	**2009**
Acquisition of works of art	$	906,132	811,891
General operations		3,618,400	3,255,431
Future periods		37,408	82,282
	$	4,561,940	4,149,604

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

For the years ended June 30, 2010 and 2009, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

		2010	**2009**
Acquisition of works of art	$	263,899	245,923
Other operational support		3,711,364	3,203,148
	$	3,975,263	3,449,071

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, 2010 and 2009, the Museum held $32,011,052 and $31,381,918, respectively, in endowment funds. The investment income earned on these permanently restricted net assets is restricted or unrestricted as follows:

		2010	**2009**
Income restricted for:			
Museum operations	$	21,097,880	20,527,431
Acquisition of works of art		1,190,267	1,190,079
Income unrestricted		9,722,905	9,664,408
	$	32,011,052	31,381,918

Continued

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, 2010, the Museum had incurred cumulative investment losses on its
endowment funds totaling $3,058,612 ($4,121,529 at June 30, 2009) in excess of unappropriated accumulated endowment earnings.

Accordingly, in order to report the losses as required by FASB ASC No. 958-320, *Investments – Debt and Equity Securities*, 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, 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
Change in fair value of perpetual trusts			–	58,481	58,481	–	58,481
Investment return (loss)		1,062,917	1,729,117	(2,955)	2,789,079	1,804,124	4,593,203
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.

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

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

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

13. In-Kind Contributions

The Museum is the recipient of various in-kind contributions of goods and services for which objective measurement or valuation is available. These in-kind contributions are reported in the accompanying financial statements as follows for the years ended June 30, 2010 and 2009:

		2010	2009
Museum programs	$	440,323	464,703
Film Center programs		354,944	244,240
Equipment		–	127,695
	$	795,267	836,638

14. Retirement Plan

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

Effective June 1, 2009, the 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 year ended June 30, 2010, the Museum did not contribute to the plan.

15. Expenses

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

Costs by their natural classification are summarized as follows:

		2010	2009
Salaries and related costs	$	6,649,800	7,240,685
Contract labor		616,535	941,734
Professional services		89,375	51,571
Exhibition installation		387,939	228,606
Events		180,754	194,150
Acquisition of works of art *(note 10)*		280,668	252,070
Occupancy		1,034,409	1,000,404
Merchandise		437,669	439,464
Insurance		135,246	169,273
Advertising and marketing		649,456	630,616
Postage and shipping		346,225	476,543
Travel		161,624	174,925
Printing and publications		327,928	355,057
Equipment maintenance		259,976	328,107
Merchant fees		123,129	105,137
Supplies		131,432	161,200
Interest		363,196	528,103
Depreciation		1,736,528	1,699,906
In-kind expenses		795,267	708,943
Other		886,389	744,367
	$	15,593,545	16,430,861

Exhibition-related costs in the above table totaled $1,950,766 and $2,013,151 for the years ended June 30, 2010 and 2009, respectively. Exhibition-related costs vary significantly from year to year depending on the number and size of exhibitions installed.

16. Real Estate Investments

To provide for possible future expansion of its facilities, in November of 2006 the Museum acquired additional parcels of land in the City of Portland located next to the Museum's current facilities. The acquisition included two parcels of property, one representing the outright purchase of fee title interest in real property and the second representing the acquisition of all interest in property subject to a 99-year ground lease, together with various exchange option and extension agreements. These assets are carried at $4,837,854 at June 30, 2010.

At June 30, 2010, the approximate minimum rental commitments under the ground lease described above, for the remaining years of the initial 10 years of the lease, are as follows:

Years ending June 30,		
2011	$	98,400
2012		100,400
2013		101,400
2014		101,400
2015		101,400
Thereafter		135,200
	$	638,200

Rent expense associated with this arrangement totaled $98,400 for the years ended June 30, 2010 and 2009.

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 10th anniversary of the effective date of the ground lease agreement (i.e., November 2, 2016), but the purchase price will be based on an independent appraisal of the fair market value of the property, increased by an amount equal to 5.0% for each full year remaining of the first five years of the initial 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 other office and program equipment under non-cancellable operating leases expiring at various dates through July of 2014.

At June 30, 2010, the approximate minimum rental commitments under these leases are as follows:

Years ending June 30,		
2011	$	161,222
2012		151,967
2013		130,637
2014		91,239
2015		4,089
	$	539,154

Continued

Rent expense associated with these lease arrangements totaled $155,386 and $175,014 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 totaled approximately $339,000 and $340,000, respectively.

18. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately $390,615 and $82,305 for the years ended June 30, 2010 and 2009, respectively.

19. Fair Value Measurements

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	$	23,024,803	12,932,719	35,957,522
Pledges receivable		–	8,309,813	8,309,813
Beneficial interest in perpetual trusts		–	1,012,887	1,012,887
Interest rate swap agreements		–	(312,082)	(312,082)
	$	23,024,803	21,943,337	44,968,140

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
Decrease in the fair value of interest rate swap agreements		–	–	–	33,451	33,451
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, and investments held by the Oregon Community Foundation are reported based on fair value information provided to the Museum by the partnership's general partner, and the Oregon Community Foundation respectively. See note 6.
[B] The fair value of pledges receivable is based on the expected payment date, using a discount rate of 1.81%. See note 5.
[C] The fair value of the Museum's beneficial interest in perpetual trusts is based on the reported fair values of the underlying investments held in each trust. See note 7.
[D] The fair value assigned to the Museum's interest swap agreement is based on mark-to-market value at June 30, 2010 as provided by the bank. See note 11.

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

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

Continued

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2009 are as follows:

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

[A] The fair value of the Museum's investment in private equity partnerships, and investments held by the Oregon Community Foundation are reported based on fair value information provided to the Museum by the partnership's general partner, and the Oregon Community Foundation respectively. See note 6.

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

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

[D] The fair value assigned to the Museum's interest swap agreement is based on mark-to-market value at June 30, 2009 as provided by the bank. See note 11.

20. Related Party Transactions

From time to time, the Museum enters into transactions with individuals or entities that have a relationship to a member of the Board of Trustees. These transactions are subject to Board approval.

There were no related party transactions during the years ended June 30, 2010 or 2009.

21. Reclassification of 2009 Comparative Totals

Certain 2009 amounts presented herein have been reclassified to conform to the 2010 presentation.

22. Statements of Cash Flows Reconciliation

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

		2010	2009
Increase (decrease) in total net assets	$	1,760,931	(10,540,518)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation		1,736,528	1,699,906
Net appreciation (decline) in the fair market value of investments *(note 6)*		(4,133,136)	8,000,361
Acquisition of works of art *(note 9)*		280,668	252,070
In-kind donation of equipment		–	(127,695)
Proceeds from contributions restricted to long-term investment		(1,669,682)	(2,505,664)
Contributions of perpetual trust interests		–	(954,406)
Increase in the fair value of perpetual trusts		(58,481)	–
Net changes in:			
Accounts receivable		(56,716)	344,861
Pledges receivable		1,444,873	3,071,369
Inventories and prepayments		(31,238)	50,441
Other assets		15,377	(472)
Accounts payable and accrued expenses		(101,900)	(200,960)
Accrued payroll and related expenses		194,384	167,843
Deferred revenues		45,820	(149,465)
Other liabilities		(33,451)	345,533
Total adjustments		(2,366,954)	9,993,722
Net cash used in operating activities	$	(606,023)	(546,796)

■

GOVERNING BOARD AND MANAGEMENT

Board of Trustees

Mr. Eric Smidt
Chief Executive Officer
Harbor Freight Tools

Mr. Gordon D. Sondland [1, 2]
Chairman, CEO
Aspen Companies-Provenance Hotels

Mr. Troy T. St. John
President
Fidelity National Title Company

Ms. Andrée H. Stevens

Ms. Julie Neupert Stott [1]
Designer
Julie Neupert Interior Design

Mr. Peter W. Stott [1, 2]
President
Columbia Investments, Ltd.

Mr. Donald T. Van Wart [1, 2, 3]

Mr. Lawrence S. Viehl [4]

Mrs. Helen Jo Whitsell [1]

Mr. William Whitsell [1, 2]

Mrs. Celia Wiebe

Mrs. Alice Hartman Wiewel [2]

Mr. James H. Winkler [1, 2]
President
Winkler Development Corporation

---

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

Officers

Mr. Gordon Sondland
Chair

Mrs. Ann Payne Edlen
First Vice Chair

Mr. Peter Stott
Second Vice Chair

Mr. James H. Winkler
Treasurer, Chair-Elect

Mrs. Mary Clark
Secretary

At-Large Members of Standing Committees

Mrs. Nani S. Warren [1]

Mr. John B. Fewell Jr. [4]
Senior Investment Officer
Office of the State Treasurer

Ms. Patricia M. Gianelli [4]
Vice President, Finance
Legacy Health System

Management

Mr. Brian J. Ferriso
The Marilyn H. and Dr. Robert B. Pamplin, Jr. Director

Mr. Rob Bearden
Director of Operations

Mr. Wilmot Foster
Director of the Northwest Film Center

Mr. Bruce Guenther
Chief Curator

Ms. Beth Heinrich
Director of Public Relations and Marketing

Mr. J.S. May
Director of Development

Mr. Gareth A. Nevitt
Chief Financial Officer

Dr. Christina Olsen
Director of Education and Public Programs

Mr. Donald Urquhart
Director of Collections Management

INQUIRIES AND OTHER INFORMATION

PORTLAND ART MUSEUM
1219 S.W. Park Avenue
Portland, Oregon 97205

(503) 226-2811
(503) 226-4842 Fax

info@pam.org
www.portlandartmuseum.org