



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2016 and 2015
and Report of Independent Accountants

PORTLAND ART MUSEUM

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Report of the Treasurer

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

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

The financial statements have been examined by the Museum's independent accountants, GARY MCGEE & CO. LLP, whose report follows. Their examinations were made in accordance with generally accepted auditing standards. The 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.

H. Pat Ritz
Treasurer
Board of Trustees
Portland Art Museum

REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
Portland Art Museum:*

We have audited the accompanying financial statements of the Portland Art Museum, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Museum's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Chapman & Co. LLP

September 12, 2016

PORTLAND ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	Unrestricted	2016		Total
		Temporarily restricted	Permanently restricted	
Assets:				
Cash and cash equivalents <i>(note 5)</i>	\$ 976,966	299,078	364,978	1,641,022
Short-term investments <i>(note 5)</i>	–	2,550,757	–	2,550,757
Accounts receivable	491,507	–	–	491,507
Pledges receivable <i>(note 3)</i>	586,619	1,408,580	103,665	2,098,864
Inventories and prepayments <i>(note 4)</i>	692,525	–	–	692,525
Other assets	358,835	54,496	–	413,331
Investments <i>(notes 5)</i>	5,354,618	6,430,875	37,466,550	49,252,043
Beneficial interest in perpetual trusts <i>(note 6)</i>	–	–	1,038,642	1,038,642
Real estate investments, at cost <i>(note 15)</i>	4,837,854	–	–	4,837,854
Property and equipment <i>(note 7)</i>	53,055,967	–	–	53,055,967
Total assets	\$ 66,354,891	10,743,786	38,973,835	116,072,512
Liabilities:				
Accounts payable and accrued expenses	416,577	14,362	–	430,939
Accrued payroll and related expenses	803,292	–	–	803,292
Deferred revenues <i>(note 9)</i>	696,258	–	–	696,258
Due to (from) other funds	(1,807,573)	1,807,573	–	–
Total liabilities	108,554	1,821,935	–	1,930,489
Net assets:				
Unrestricted:				
Available for programs and general operations	2,427,966	–	–	2,427,966
Designated by the Board of Trustees <i>(note 10)</i>	7,882,723	–	–	7,882,723
Cumulative endowment losses <i>(note 10)</i>	(1,958,173)	–	–	(1,958,173)
Net investment in capital assets and real estate investments	57,893,821	–	–	57,893,821
Total unrestricted	66,246,337	–	–	66,246,337
Temporarily restricted <i>(note 10)</i>	–	8,921,851	–	8,921,851
Permanently restricted for endowment <i>(note 10)</i>	–	–	38,973,835	38,973,835
Total net assets	66,246,337	8,921,851	38,973,835	114,142,023
Commitments and contingencies <i>(notes 5, 14, 15, 16, and 17)</i>				
Total liabilities and net assets	\$ 66,354,891	10,743,786	38,973,835	116,072,512

See accompanying notes to financial statements.

2015

Unrestricted	Temporarily restricted	Permanently restricted	Total
968,185	559,064	465,295	1,992,544
–	1,701,665	–	1,701,665
357,833	–	–	357,833
239,025	500,480	273,264	1,012,769
843,105	–	–	843,105
406,864	51,498	–	458,362
7,353,618	9,333,122	37,047,018	53,733,758
–	–	1,076,223	1,076,223
4,837,854	–	–	4,837,854
54,259,228	–	–	54,259,228
69,265,712	12,145,829	38,861,800	120,273,341
346,442	534	–	346,976
774,678	–	–	774,678
676,324	–	–	676,324
(1,385,660)	1,460,595	(74,935)	–
411,784	1,461,129	(74,935)	1,797,978
2,345,269	–	–	2,345,269
8,147,997	–	–	8,147,997
(736,420)	–	–	(736,420)
59,097,082	–	–	59,097,082
68,853,928	–	–	68,853,928
–	10,684,700	–	10,684,700
–	–	38,936,735	38,936,735
68,853,928	10,684,700	38,936,735	118,475,363
69,265,712	12,145,829	38,861,800	120,273,341

PORTLAND ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues, gains, and other support:				
Contributions, memberships, and grants	\$ 5,438,136	4,496,802	76,358	10,011,296
In-kind contributions (<i>note 11</i>)	430,711	—	—	430,711
Financial support received from volunteer groups	258,899	—	—	258,899
Admissions	1,938,123	—	—	1,938,123
Museum store sales	1,271,512	—	—	1,271,512
Rental income	2,301,102	—	—	2,301,102
Tuition and fees	327,426	—	—	327,426
Total investment return (<i>note 5</i>)	(1,528,387)	(268,739)	(39,258)	(1,836,384)
Other revenues and gains (<i>note 12</i>)	531,112	17,293	—	548,405
Total revenues and gains	10,968,634	4,245,356	37,100	15,251,090
Net assets released from restrictions (<i>note 10</i>)	6,008,205	(6,008,205)	—	—
Total revenues, gains, and other support	16,976,839	(1,762,849)	37,100	15,251,090
Expenses (<i>note 13</i>):				
Program activities:				
Acquisition of art (<i>note 8</i>)	741,991	—	—	741,991
Museum programs	11,976,490	—	—	11,976,490
Film center programs	1,886,891	—	—	1,886,891
Total program activities	14,605,372	—	—	14,605,372
Supporting activities:				
Management and general	3,216,672	—	—	3,216,672
Fundraising, membership, and development	1,762,386	—	—	1,762,386
Total supporting activities	4,979,058	—	—	4,979,058
Total expenses	19,584,430	—	—	19,584,430
Increase (decrease) in net assets	(2,607,591)	(1,762,849)	37,100	(4,333,340)
Net assets at beginning of year	68,853,928	10,684,700	38,936,735	118,475,363
Net assets at end of year	\$ 66,246,337	8,921,851	38,973,835	114,142,023

See accompanying notes to financial statements.

2015			
Unrestricted	Temporarily restricted	Permanently restricted	Total
5,013,172	4,832,402	1,431,107	11,276,681
752,700	—	—	752,700
288,018	—	—	288,018
1,781,080	—	—	1,781,080
1,239,471	—	—	1,239,471
2,335,556	—	—	2,335,556
283,798	—	—	283,798
(116,616)	961,990	(92,396)	752,978
336,717	421	—	337,138
11,913,896	5,794,813	1,338,711	19,047,420
6,828,265	(6,828,265)	—	—
18,742,161	(1,033,452)	1,338,711	19,047,420
976,028	—	—	976,028
13,091,127	—	—	13,091,127
1,822,232	—	—	1,822,232
15,889,387	—	—	15,889,387
2,699,956	—	—	2,699,956
1,673,335	—	—	1,673,335
4,373,291	—	—	4,373,291
20,262,678	—	—	20,262,678
(1,520,517)	(1,033,452)	1,338,711	(1,215,258)
70,374,445	11,718,152	37,598,024	119,690,621
68,853,928	10,684,700	38,936,735	118,475,363

PORTLAND ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 8,938,128	10,508,850
Cash received from admissions and service recipients	3,095,895	3,271,727
Interest and dividends received	643,520	841,590
Other receipts	3,176,933	2,956,492
Cash paid to employees and suppliers	(16,333,661)	(17,093,648)
Interest paid	–	(28,529)
Net cash provided by (used in) operating activities	(479,185)	456,482
Cash flows from investing activities:		
Proceeds from the sale of investments	2,630,906	15,652,066
Purchases of investments	(797,450)	(15,620,249)
Reinvestment of investment income	(643,156)	(789,664)
Acquisition of property and equipment	(566,618)	(473,773)
Acquisition of works of art (<i>note 8</i>)	(741,991)	(976,028)
Net cash used in investing activities	(118,309)	(2,207,648)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	245,972	2,155,764
Repayment of note principal	–	(2,303,715)
Net cash provided by (used in) financing activities	245,972	(147,951)
Net decrease in cash and cash equivalents	(351,522)	(1,899,117)
Cash and cash equivalents at beginning of year	1,992,544	3,891,661
Cash and cash equivalents at end of year	\$ 1,641,022	1,992,544

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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 48,000 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 trusts

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 Museum'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 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 statements 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 statements of activities. Interest income is accrued as earned, and reported net of investment advisory and transaction fees (totaling \$131,385 in 2016 and \$121,087 in 2015). 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 15 for further discussion of the Museum’s real estate investments.

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 store, 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 initially 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 shorter.

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 2016 and 2015, the Museum’s policies limit the appropriation of endowment assets for expenditure 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 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.

In addition, the Museum is the ultimate beneficiary of two charitable remainder trusts, where a third party has the right to receive income from the trust during their lifetime and the Museum is entitled to a share of the remaining assets after their death.

Interests in perpetual and charitable remainder trusts are recognized by the Museum as contribution revenue and as an asset, measured at fair value based on estimated future cash-flows, at the time the Museum becomes aware of the trust's existence. Periodically, the Museum re-measures its beneficial interest at fair value, using the same valuation technique used to measure the asset initially. The adjustment is recognized as a gain or loss in the appropriate asset class.

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 \$466,667 and \$454,896 for the years ended June 30, 2016 and 2015, 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 financial instruments consist primarily of cash equivalents (short-term investments and restricted cash and investments), which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC and the SIPC for up to \$250,000 for each depositor, for each insured bank and broker, for each account ownership category. At June 30, 2016 and 2015, the Museum held \$977,385 and \$1,009,930, respectively, in cash balances in excess of the FDIC/SIPC-insured level.

Certain receivables may also, from time to time, 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. In addition, the Museum has been recognized as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

The Museum has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Museum has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Museum believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the organization's financial condition, results of operations or cash flows. Accordingly, the Museum has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through September 12, 2016, 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. Pledges Receivable

Pledges receivable at June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Donor-restricted endowments	\$ 610,000	810,015
Museum operations and programs	2,097,651	796,047
	2,707,651	1,606,062
Less discount	(65,036)	(58,730)
Less allowance for doubtful collection	(543,751)	(534,563)
	\$ 2,098,864	1,012,769

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 1.15% in 2016, and 1.33% in 2015.

Amounts due at June 30, 2016 and 2015 are as follows:

	2016	2015
<i>Unconditional promises expected to be collected in:</i>		
Less than one year	\$ 1,360,078	861,065
One year to five years	1,036,985	568,634
Greater than five years	310,588	176,363
	\$ 2,707,651	1,606,062

4. Inventories and Prepayments

At June 30, 2016 and 2015, the following summarizes the Museum's inventories and prepayments:

	2016	2015
Museum store inventory	\$ 351,576	347,708
Prepaid exhibition expenses	163,045	397,621
Other prepayments	177,904	97,776
	\$ 692,525	843,105

5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2016 and 2015 comprised the following:

	2016	2015
Equity mutual funds	\$ 22,589,552	25,488,986
Fixed income mutual funds	6,856,587	8,116,442
Corporate bonds and notes	4,603,794	3,735,281
Emerging markets debt funds	2,372,796	2,609,117
Real return mutual funds	3,096,340	3,099,764
Absolute return mutual funds	3,388,733	4,209,210
Balanced index mutual fund	69,446	68,356
Interests in private equity partnerships	8,822,818	8,108,267
	51,800,066	55,435,423
Money market funds and other cash and cash equivalents	1,643,756	1,992,544
	\$ 53,443,822	57,427,967

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

	2016	2015
Cash and cash equivalents	\$ 1,641,022	1,992,544
Short-term investments	2,550,757	1,701,665
Investments	49,252,043	53,733,758
	\$ 53,443,822	57,427,967

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 is 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, 2016 and 2015. 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 just summarized, the Museum is obligated under the terms of certain agreements with private equity partnerships to remit additional funding on demand. At June 30, 2016 and 2015, such commitments totaled \$1,239,850 and \$784,097, respectively. See note 20 for additional discussion.

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

Continued

Total investment return for the year ended June 30, 2016 is summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividend income, gross	\$ 112,452	662,453	–	774,905
Investment fees	(21,343)	(110,042)	–	(131,385)
Interest and dividend income, net	91,109	552,411	–	643,520
Unrealized gains and losses	(397,743)	(2,042,903)	(1,677)	(2,442,323)
Net change in cumulative endowment losses	(1,221,753)	1,221,753	–	–
Net change in perpetual trusts	–	–	(37,581)	(37,581)
Total investment return	\$ (1,528,387)	(268,739)	(39,258)	(1,836,384)

Total investment return for the year ended June 30, 2015 is summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividend income, gross	\$ 212,529	750,148	–	962,677
Investment fees	(23,319)	(97,768)	–	(121,087)
Interest and dividend income, net	189,210	652,380	–	841,590
Unrealized gains and losses	(122,956)	126,740	(4,942)	(1,158)
Net change in cumulative endowment losses	(182,870)	182,870	–	–
Net change in perpetual trusts	–	–	(87,454)	(87,454)
Total investment return	\$ (116,616)	961,990	(92,396)	752,978

6. Beneficial Interest in Perpetual Trusts

The changes in the Museum's beneficial interest in perpetual trusts for the years ended June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Fair value at beginning of year	\$ 1,076,223	1,163,677
Decline in fair value ¹	(37,581)	(87,454)
Fair value at end of year	\$ 1,038,642	1,076,223

¹ The decline in fair value shown is net of distributions of \$39,801 and \$66,724 received from these trusts during the years ended June 30, 2016 and 2015, respectively.

7. Property and Equipment

A summary of property and equipment at June 30, 2016 and 2015 is as follows:

	2016	2015
Land and land improvements	\$ 3,565,225	3,545,955
Main building	9,418,508	9,378,635
Mark building	42,367,982	42,320,984
Hoffman wing	18,892,260	18,892,260
Furniture and equipment	7,165,549	6,705,072
Leasehold improvements	448,139	448,139
	81,857,663	81,291,045
Less accumulated depreciation and amortization	(28,801,696)	(27,031,817)
	\$ 53,055,967	54,259,228

8. Museum Collections

During the years ended June 30, 2016 and 2015, the Museum acquired works of art for a total cost of \$741,991 and \$976,028, respectively. During these same periods, the Museum accepted donations of art with an estimated value of \$2,370,654 and \$3,633,098, respectively. Pursuant to Museum policies, purchases of art are recorded as expenses in the statements 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, 2016 and 2015:

	2016	2015
Film Center tuition	\$ 117,516	118,381
Events and projects	363,626	333,297
Other	215,116	224,646
	<u>\$ 696,258</u>	<u>676,324</u>

10. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2016 and 2015, \$7,882,723 and \$8,147,997 of the Museum's unrestricted net assets, respectively, had been designated by the Board of Trustees for the following purposes:

	2016	2015
Quasi-endowment	\$ 7,691,285	8,147,997
Specific operating expenses	191,438	-
	<u>\$ 7,882,723</u>	<u>8,147,997</u>

Temporarily Restricted Net Assets

At June 30, 2016 and 2015, 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, were as follows:

	2016	2015
Acquisition of works of art	\$ 841,760	1,139,539
Specific program expenses	7,878,756	9,346,410
Future periods	201,335	198,751
	<u>\$ 8,921,851</u>	<u>10,684,700</u>

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

Net Assets Released from Restrictions

For the years ended June 30, 2016 and 2015, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2016	2015
Acquisition of works of art	\$ 665,251	897,633
Facility planning	145,267	-
Other operational support	5,197,687	5,930,632
	<u>\$ 6,008,205</u>	<u>6,828,265</u>

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, 2016 and 2015, the Museum held \$38,973,835 and \$38,936,735, respectively, in endowment funds. These funds earn investment income that is restricted or unrestricted, as follows:

	2016	2015
<i>Income restricted for:</i>		
Specific program expenses	\$ 27,816,797	27,742,205
Acquisition of works of art	1,408,305	1,408,305
Income unrestricted	9,748,733	9,786,225
	<u>\$ 38,973,835</u>	<u>38,936,735</u>

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 Museum to retain as a fund of perpetual duration. As of June 30, 2016, the Museum had incurred cumulative investment losses in excess of unappropriated accumulated endowment earnings totaling \$1,958,173 (\$736,420 at June 30, 2015).

Accordingly, in order to report the losses as required by FASB ASC No. 958-320, the excess losses and appropriations have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

The following summarizes the Museum's donor-restricted and Board-designated, endowment-related activities for the year ended June 30, 2016:

	Donor-restricted endowment			Total	Board-	Total
	Unrestricted	Temporarily restricted	Permanently restricted		designated endowment	
Endowment net assets at beginning of year	\$ (736,420)	5,160,889	38,936,735	43,361,204	8,147,997	51,509,201
Contributions and bequests	—	4,511	76,358	80,869	654,384	735,253
Investment return	—	(1,573,018)	(39,258)	(1,612,276)	(305,199)	(1,917,475)
Net change in cumulative endowment losses	(1,221,753)	1,221,753	—	—	—	—
Appropriation of endowment assets for expenditure (see next page)	—	(2,386,154)	—	(2,386,154)	(614,459)	(3,000,613)
Endowment net assets at end of year	\$ (1,958,173)	2,427,981	38,973,835	39,443,643	7,882,723	47,326,366

The following summarizes the Museum's donor-restricted and Board-designated, endowment-related activities for the year ended June 30, 2015:

	Donor-restricted endowment			Total	Board-designated endowment	Total endowment
	Unrestricted	Temporarily restricted	Permanently restricted		Unrestricted	
Endowment net assets at beginning of year	\$ (553,550)	6,639,263	37,598,024	43,683,737	10,399,511	54,083,248
Contributions and bequests	–	2,904	1,431,107	1,434,011	447,880	1,881,891
Investment return	–	698,182	(92,396)	605,786	34,240	640,026
Net change in cumulative endowment losses	(182,870)	182,870	–	–	–	–
Appropriation of endowment assets for expenditure (<i>see below</i>)	–	(2,362,330)	–	(2,362,330)	(2,733,634)	(5,095,964)
Endowment net assets at end of year	\$ (736,420)	5,160,889	38,936,735	43,361,204	8,147,997	51,509,201

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2016 and 2015:

	2016	2015
Appropriation of 6% spending rate to fund operations	\$ (2,813,180)	(2,658,501)
Utilization of Board-designated endowment to fund repayments of note payable	–	(2,065,000)
Collection of pledges to fund repayment of note payable	54,395	–
Utilization of Board-designated endowment to acquire capital assets	(241,828)	(322,463)
Utilization of Board-designated endowment to fund current-year operating projects	–	(50,000)
Total appropriation	\$ (3,000,613)	(5,095,964)

11. 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, 2016 and 2015:

	2016	2015
Museum programs	\$ 241,730	476,602
Film Center programs	188,981	276,098
	\$ 430,711	752,700

12. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Rental sales gallery	\$ 257,483	215,904
Other	290,922	121,234
	\$ 548,405	337,138

13. Expenses

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

Costs by their natural classification for the years ended June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Salaries and related costs	\$ 9,412,143	8,786,971
Contract services	946,717	1,057,010
Professional services	157,541	124,401
Exhibition installation	593,297	845,601
Events	327,221	374,425
Acquisition of works of art (note 8)	741,991	976,028
Occupancy	957,776	973,101
Merchandise	685,995	652,715
Insurance	168,356	209,737
Advertising and marketing	466,667	454,896
Postage and shipping	357,401	762,793
Travel	255,323	334,194
Printing and publications	351,710	415,976
Equipment maintenance	574,926	635,569
Merchant fees	226,374	205,117
Supplies	209,053	240,231
Interest	—	28,529
Depreciation and amortization	1,769,879	1,659,106
In-kind expenses (note 11)	430,711	752,700
Other	951,349	773,578
	\$ 19,584,430	20,262,678

Exhibition-related costs in the preceding table totaled \$2,119,249 and \$3,479,484 for the years ended June 30, 2016 and 2015, respectively. Exhibition-related costs vary significantly from year to year, depending on the number and size of exhibitions installed.

14. Retirement Plan

The Museum sponsors a defined contribution retirement savings Plan established under Section 401(k) of the Internal Revenue Code (the "Plan"). 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.

For the year ended June 30, 2015 and the six months ended December 31, 2015, the Museum made matching contributions equal to 50% of each participating employee's contributions to the Plan, up to 4% of total annual compensation. For the six months ended June 30, 2016, the match was increased from 50% to 75%. This resulted in a total employer contribution of up to 2.5% of each participating employee's annual compensation (2% for the year ended June 30, 2015). The Museum contributed \$71,967 and \$65,286 to the Plan for the years ended June 30, 2016 and 2015, respectively.

15. Real Estate Investments

To provide for possible future expansion of its facilities, in November of 2006, the Museum acquired additional parcels of land in the City of Portland located next to the Museum's current facilities. The acquisition included two parcels of property, one representing the outright purchase of fee title interest in real property and the second representing the acquisition of all interest in property subject to a 99-year ground lease, together with various exchange option and extension agreements. These assets are carried at \$4,837,854 at June 30, 2016 and 2015.

At June 30, 2016, the approximate minimum rental commitments under the ground lease just described, for the remaining year of the initial ten years of the lease, is \$33,800.

Rent expense associated with this arrangement totaled \$101,400 for each of the years ended June 30, 2016 and 2015.

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

16. Other Operating Leases

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

At June 30, 2016, the approximate future minimum rental commitments under these leases are as follows:

<i>Years ending June 30,</i>	
2017	\$ 260,247
2018	263,018
2019	192,627
2020	84,277
2021	66,495
Thereafter	73,722
	<hr/>
	\$ 940,386

Rent expense associated with these lease arrangements totaled \$256,044 and \$246,163 for the years ended June 30, 2016 and 2015, respectively.

In addition, the Museum subleases a parking lot under single-year leases to an unrelated party. Annual rental revenues for each of the years ended June 30, 2016 and 2015 totaled approximately \$341,496.

17. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately \$148,750 and \$100,000 for the years ended June 30, 2016 and 2015, respectively.

18. Related-Party Transactions

From time to time, the Museum enters into transactions with individuals or entities that have a relationship to a member of the Board of Trustees. These transactions are subject to Board approval. Beginning with the year ended June 30, 2012, the Museum entered into a lease for offsite storage space with 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. Rent payments made under this lease totaled \$45,634 and \$44,739 for the years ended June 30, 2016 and 2015, respectively. The amount of future lease commitments is included in the disclosures in note 16.

19. Reclassification of 2015 Comparative Totals

Certain 2015 amounts presented herein have been reclassified to conform to the 2016 presentation.

20. Fair Value Measurements

At June 30, 2016, the following financial assets and liabilities are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments (<i>see note 5</i>):			
<i>Equity mutual funds:</i>			
Large-cap domestic	\$ 9,391,433	–	9,391,433
Small and mid-cap domestic	2,785,003	–	2,785,003
Large-cap international	9,018,771	–	9,018,771
Small-cap international	1,394,345	–	1,394,345
Total equity mutual funds	22,589,552	–	22,589,552
Fixed income mutual funds	6,856,587	–	6,856,587
Corporate bonds and notes	4,603,794	–	4,603,794
Emerging markets debt funds	2,372,796	–	2,372,796
Real return mutual funds	3,096,340	–	3,096,340
Absolute return mutual fund	3,388,733	–	3,388,733
Balanced index mutual funds	69,446	–	69,446
<i>Interests in private equity partnerships:</i>			
Absolute return hedge funds [A]	–	3,441,052	3,441,052
Private equity funds [B]	–	2,214,446	2,214,446
Real estate fund [C]	–	2,689,058	2,689,058
Real return fund [D]	–	478,262	478,262
Total interests in private equity partnerships	–	8,822,818	8,822,818
Total investments	42,977,248	8,822,818	51,800,066
Pledges receivable (<i>see note 3</i>)	–	2,098,864	2,098,864
Beneficial interest in trusts (<i>see note 6</i>)	–	1,038,642	1,038,642
	\$ 42,977,248	11,960,324	54,937,572

Commitments and redemption schedules for those investments for which fair value is based on net asset values at June 30, 2016 are as follows:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 3,441,052	none	quarterly	70 days
Private equity funds [B]	2,214,446	1,239,850	not allowed	n/a
Real estate fund [C]	2,689,058	none	quarterly	60 days
Real return fund [D]	478,262	none	monthly	30 days

[A] 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.

[B] Private equity funds are investments in funds organized as limited partnerships that invest in both venture capital and buyouts.

[C] Real estate fund is an investment in funds organized as a limited partnership that invests primarily in equity real estate investments located in the U.S.

[D] Real return fund is an investment in funds organized as a limited liability company. The fund invests in master limited partnerships (“MLPs”) with a focus on energy sector MLPs.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2016 are as follows:

	Investments	Pledges receivable	Beneficial interest in trusts	Total
Fair value at beginning of year	\$ 8,108,267	1,012,769	1,076,223	10,197,259
Sale of investments	(33,997)	-	-	(33,997)
Purchase of investments	544,247	-	-	544,247
Reinvestment of investment income	87,574	-	-	87,574
Net appreciation in the fair value of investments	116,727	-	-	116,727
Receipt of new pledges	-	3,639,562	-	3,639,562
Collection of pledge payments	-	(2,537,973)	-	(2,537,973)
Changes in the allowance for doubtful collection of receivables	-	(9,188)	-	(9,188)
Changes in the unamortized discount associated with pledges receivable	-	(6,306)	-	(6,306)
Change in the fair value of perpetual trusts	-	-	(37,581)	(37,581)
Net changes	714,551	1,086,095	(37,581)	1,763,065
Fair value at end of year	\$ 8,822,818	2,098,864	1,038,642	11,960,324
	[A]	[B]	[C]	

[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. See note 5.

[B] The fair value of pledges receivable is based on the expected payment date, using a current discount rate of 1.15%. See note 3.

[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.

Continued

At June 30, 2015, the following financial assets and liabilities are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments (see note 5):			
<i>Equity mutual funds:</i>			
Large-cap domestic	\$ 10,657,799	–	10,657,799
Small and mid-cap domestic	3,116,754	–	3,116,754
Large-cap international	10,181,658	–	10,181,658
Small-cap international	1,532,775	–	1,532,775
Total equity mutual funds	25,488,986	–	25,488,986
Fixed income mutual funds	8,116,442	–	8,116,442
Corporate bonds and notes	3,735,281	–	3,735,281
Emerging markets debt funds	2,609,117	–	2,609,117
Real return mutual funds	3,099,764	–	3,099,764
Absolute return mutual funds	4,209,210	–	4,209,210
Balanced index mutual fund	68,356	–	68,356
<i>Interests in private equity partnerships:</i>			
Absolute return hedge funds [A]	–	3,632,142	3,632,142
Private equity funds [B]	–	1,436,694	1,436,694
Real estate fund [C]	–	2,458,227	2,458,227
Real return fund [D]	–	581,204	581,204
Total interests in private equity partnerships	–	8,108,267	8,108,267
Total investments	47,327,156	8,108,267	55,435,423
Pledges receivable (see note 3)	–	1,012,769	1,012,769
Beneficial interest in trusts (see note 6)	–	1,076,223	1,076,223
	\$ 47,327,156	10,197,259	57,524,415

Commitments and redemption schedules for those investments for which fair value is based on net asset values at June 30, 2015 are as follows:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 3,632,142	none	quarterly	70 days
Private equity funds [B]	1,436,694	784,097	not allowed	n/a
Real estate fund [C]	2,458,227	none	quarterly	60 days
Real return fund [D]	581,204	none	monthly	30 days

[A] 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.

[B] Private equity funds are investments in funds organized as limited partnerships that invest in both venture capital and buyouts.

[C] Real estate fund is an investment in funds organized as a limited partnership that invests primarily in equity real estate investments located in the U.S.

[D] Real return fund is an investment in funds organized as a limited liability company. The fund invests in master limited partnerships (“MLPs”) with a focus on energy sector MLPs.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2015 are as follows:

	Investments	Pledges receivable	Beneficial interest in trusts	Total
Fair value at beginning of year	\$ 13,388,094	2,112,684	1,163,677	16,664,455
Sale of investments	(6,980,246)	-	-	(6,980,246)
Purchase of investments	1,266,788	-	-	1,266,788
Reinvestment of investment income	175,782	-	-	175,782
Net appreciation in the fair value of investments	257,849	-	-	257,849
Receipt of new pledges	-	2,996,673	-	2,996,673
Collection of pledge payments	-	(4,139,090)	-	(4,139,090)
Changes in the allowance for doubtful collection of receivables	-	79,415	-	79,415
Changes in the unamortized discount associated with pledges receivable	-	(36,913)	-	(36,913)
Change in the fair value of perpetual trusts	-	-	(87,454)	(87,454)
Net changes	(5,279,827)	(1,099,915)	(87,454)	(6,467,196)
Fair value at end of year	\$ 8,108,267	1,012,769	1,076,223	10,197,259
	[A]	[B]	[C]	

[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. See note 5.

[B] The fair value of pledges receivable is based on the expected payment date, using a current discount rate of 1.33%. See note 3.

[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.

21. Statements of Cash Flows Reconciliation

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

	2016	2015
Decrease in net assets	\$ (4,333,340)	(1,215,258)
<i>Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,769,879	1,659,106
Net decline in the fair value of investments (note 5)	2,442,323	1,158
Acquisition of works of art (note 8)	741,991	976,028
Proceeds from contributions restricted for long-term investment	(245,972)	(2,155,764)
Decline in the fair value of perpetual trusts (note 6)	37,581	87,454
<i>Net changes in:</i>		
Accounts receivable	(133,674)	154,216
Pledges receivable	(1,086,095)	1,099,915
Inventories and prepayments	150,580	50,185
Other assets	45,031	42,682
Accounts payable and accrued expenses	83,963	(422,139)
Accrued payroll and related expenses	28,614	81,939
Deferred revenues	19,934	96,960
Total adjustments	3,854,155	1,671,740
Net cash provided by (used in) operating activities	\$ (479,185)	456,482

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PORTLAND ART MUSEUM

**SCHEDULE OF OPERATING REVENUES AND EXPENSES
OF THE NORTHWEST FILM CENTER**

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating revenues, gains, and other support:		
Contributions and grants	\$ 417,764	229,686
Memberships	201,455	192,806
In-kind contributions	188,981	276,098
Admissions	349,216	390,615
Tuition and fees	327,426	283,798
Other revenues and gains	66,954	61,561
Total operating revenues and gains	1,551,796	1,434,564
Net transfers from Board-designated reserves	52,000	45,000
Total operating revenues, gains, and other support	1,603,796	1,479,564
Direct expenses:		
Program activities:		
Classes	539,211	467,652
Exhibitions	784,240	852,511
Other	61,617	54,145
Total program activities	1,385,068	1,374,308
Supporting activities:		
Management and general	237,812	182,554
Total supporting activities	237,812	182,554
Total direct expenses	1,622,880	1,556,862
Net operating loss	\$ (19,084)	(77,298)

See accompanying notes to schedule of operating revenues and expenses of the Northwest Film Center.

PORTLAND ART MUSEUM

**NOTES TO SCHEDULE OF OPERATING REVENUES AND
EXPENSES OF THE NORTHWEST FILM CENTER**

YEARS ENDED JUNE 30, 2016 AND 2015

1. Basis of Accounting

The Portland Art Museum consists of two major programmatic components, the Portland Art Museum itself and the Northwest Film Center (the “Film Center”), which joined the Museum in 1979. The schedule of operating revenues and expenses of the Northwest Film Center has been prepared on the accrual basis of accounting in accordance with the requirements of accounting principles generally accepted in the United States. The schedule’s operating revenues exclude restricted resources that will be available to fund future year operations. In addition, the schedule’s operating expenses exclude shared institutional costs.

Expenses presented in this schedule differ from amounts presented in the statements of activities of the Portland Art Museum for the years ended June 30, 2016 and 2015, as follows:

	2016	2015
Total direct expenses, as reported in the accompanying schedule of operating revenues and expenses of the Northwest Film Center	\$ 1,622,880	1,556,862
<i>Reconciling items:</i>		
Less management and general expenses	(237,812)	(182,554)
Plus shared institutional costs	501,823	447,924
Total reconciling items	264,011	265,370
Northwest Film Center program expenses, as reported in the statements of activities	\$ 1,886,891	1,822,232

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PORTLAND ART MUSEUM

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