



**GaryMcGee & Co. LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Portland Art Museum**

Financial Statements and Other Information  
as of and for the Years Ended June 30, 2017 and 2016  
and Report of Independent Accountants

PORTLAND ART MUSEUM

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## Report of the Treasurer

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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  
*Chair-Elect and 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, 2017 and 2016, 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, 2017 and 2016, 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.

*Camy Con & Co. LLP*

September 18, 2017

PORTLAND ART MUSEUM

**STATEMENTS OF FINANCIAL POSITION**

JUNE 30, 2017 AND 2016

	Unrestricted	2017		Total
		Temporarily restricted	Permanently restricted	
<b>Assets:</b>				
Cash and cash equivalents <i>(note 5)</i>	\$ 1,051,780	262,300	138,519	1,452,599
Short-term investments <i>(note 5)</i>	–	1,551,229	–	1,551,229
Accounts receivable	184,240	–	–	184,240
Pledges receivable <i>(note 3)</i>	436,143	13,562,273	84,464	14,082,880
Inventories and prepayments <i>(note 4)</i>	677,463	–	–	677,463
Other assets	–	422,801	–	422,801
Investments <i>(notes 5)</i>	7,861,429	13,821,769	37,977,057	59,660,255
Beneficial interest in charitable trusts <i>(note 6)</i>	–	61,795	1,057,472	1,119,267
Real estate investments, at cost <i>(note 15)</i>	4,837,854	–	–	4,837,854
Property and equipment <i>(note 7)</i>	51,573,262	–	–	51,573,262
<b>Total assets</b>	<b>\$ 66,622,171</b>	<b>29,682,167</b>	<b>39,257,512</b>	<b>135,561,850</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	416,280	2,957	–	419,237
Accrued payroll and related expenses	622,129	–	–	622,129
Deferred revenues <i>(note 9)</i>	633,781	–	–	633,781
Other liabilities	–	195,342	–	195,342
Due to (from) other funds	(2,163,516)	2,163,516	–	–
<b>Total liabilities</b>	<b>(491,326)</b>	<b>2,361,815</b>	<b>–</b>	<b>1,870,489</b>
<b>Net assets:</b>				
Unrestricted:				
Available for programs and general operations	3,019,646	–	–	3,019,646
Designated by the Board of Trustees <i>(note 10)</i>	8,494,583	–	–	8,494,583
Cumulative endowment losses <i>(note 10)</i>	(811,848)	–	–	(811,848)
Net investment in capital assets and real estate investments	56,411,116	–	–	56,411,116
<b>Total unrestricted</b>	<b>67,113,497</b>	<b>–</b>	<b>–</b>	<b>67,113,497</b>
Temporarily restricted <i>(note 10)</i>	–	27,320,352	–	27,320,352
Permanently restricted for endowment <i>(note 10)</i>	–	–	39,257,512	39,257,512
<b>Total net assets</b>	<b>67,113,497</b>	<b>27,320,352</b>	<b>39,257,512</b>	<b>133,691,361</b>
Commitments and contingencies <i>(notes 5, 14, 15, 16, and 17)</i>				
<b>Total liabilities and net assets</b>	<b>\$ 66,622,171</b>	<b>29,682,167</b>	<b>39,257,512</b>	<b>135,561,850</b>

See accompanying notes to financial statements.

**2016**

<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
976,966	299,078	364,978	1,641,022
–	2,550,757	–	2,550,757
491,507	–	–	491,507
586,619	1,261,741	103,665	1,952,025
692,525	–	–	692,525
358,835	276,675	–	635,510
5,354,618	6,430,875	37,466,550	49,252,043
–	53,848	1,038,642	1,092,490
4,837,854	–	–	4,837,854
53,055,967	–	–	53,055,967
<b>66,354,891</b>	<b>10,872,974</b>	<b>38,973,835</b>	<b>116,201,700</b>
416,577	14,362	–	430,939
803,292	–	–	803,292
696,258	–	–	696,258
–	129,188	–	129,188
(1,807,573)	1,807,573	–	–
<b>108,554</b>	<b>1,951,123</b>	<b>–</b>	<b>2,059,677</b>
2,427,966	–	–	2,427,966
7,882,723	–	–	7,882,723
(1,958,173)	–	–	(1,958,173)
<b>57,893,821</b>	<b>–</b>	<b>–</b>	<b>57,893,821</b>
66,246,337	–	–	66,246,337
–	8,921,851	–	8,921,851
–	–	38,973,835	38,973,835
<b>66,246,337</b>	<b>8,921,851</b>	<b>38,973,835</b>	<b>114,142,023</b>
<b>66,354,891</b>	<b>10,872,974</b>	<b>38,973,835</b>	<b>116,201,700</b>

PORTLAND ART MUSEUM

**STATEMENTS OF ACTIVITIES**

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
<b>Revenues, gains, and other support:</b>				
Contributions, memberships, and grants	\$ 4,922,871	18,999,940	264,847	24,187,658
In-kind contributions ( <i>note 11</i> )	258,661	—	—	258,661
Financial support received from volunteer groups	232,880	—	—	232,880
Admissions	2,278,855	—	—	2,278,855
Museum store sales	1,424,781	—	—	1,424,781
Rental income	2,338,125	—	—	2,338,125
Tuition and fees	319,816	—	—	319,816
Total investment return ( <i>note 5</i> )	2,240,686	4,509,598	18,830	6,769,114
Other revenues and gains ( <i>note 12</i> )	685,678	—	—	685,678
Total revenues and gains	14,702,353	23,509,538	283,677	38,495,568
Net assets released from restrictions ( <i>note 10</i> )	5,111,037	(5,111,037)	—	—
Total revenues, gains, and other support	19,813,390	18,398,501	283,677	38,495,568
<b>Expenses (<i>note 13</i>):</b>				
Program activities:				
Acquisition of art ( <i>note 8</i> )	414,552	—	—	414,552
Museum programs	12,141,696	—	—	12,141,696
Film center programs	1,888,939	—	—	1,888,939
Total program activities	14,445,187	—	—	14,445,187
Supporting activities:				
Management and general	2,792,988	—	—	2,792,988
Fundraising, membership, and development	1,708,055	—	—	1,708,055
Total supporting activities	4,501,043	—	—	4,501,043
Total expenses	18,946,230	—	—	18,946,230
Increase (decrease) in net assets	867,160	18,398,501	283,677	19,549,338
Net assets at beginning of year	66,246,337	8,921,851	38,973,835	114,142,023
Net assets at end of year	\$ 67,113,497	27,320,352	39,257,512	133,691,361

See accompanying notes to financial statements.

<b>2016</b>			
<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
5,438,136	4,496,802	76,358	10,011,296
430,711	—	—	430,711
258,899	—	—	258,899
1,938,123	—	—	1,938,123
1,271,512	—	—	1,271,512
2,301,102	—	—	2,301,102
327,426	—	—	327,426
(1,528,387)	(268,739)	(39,258)	(1,836,384)
531,112	17,293	—	548,405
10,968,634	4,245,356	37,100	15,251,090
6,008,205	(6,008,205)	—	—
16,976,839	(1,762,849)	37,100	15,251,090
741,991	—	—	741,991
11,976,490	—	—	11,976,490
1,886,891	—	—	1,886,891
14,605,372	—	—	14,605,372
3,216,672	—	—	3,216,672
1,762,386	—	—	1,762,386
4,979,058	—	—	4,979,058
19,584,430	—	—	19,584,430
(2,607,591)	(1,762,849)	37,100	(4,333,340)
68,853,928	10,684,700	38,936,735	118,475,363
66,246,337	8,921,851	38,973,835	114,142,023

PORTLAND ART MUSEUM

**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2017 AND 2016

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Cash received from contributors, grantors, and members	\$ 9,434,235	8,542,861
Cash received from admissions and service recipients	3,948,426	3,095,895
Interest and dividends received	761,728	643,520
Other receipts	3,702,454	3,176,933
Cash paid to employees and suppliers	(16,670,691)	(16,333,661)
Net cash provided by (used in) operating activities	1,176,152	(874,452)
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of investments	2,321,536	2,630,906
Purchases of investments	(4,993,665)	(797,450)
Reinvestment of investment income	(755,946)	(643,156)
Acquisition of property and equipment	(297,424)	(566,618)
Acquisition of works of art ( <i>note 8</i> )	(414,552)	(741,991)
Proceeds from the sale of works of art ( <i>note 8</i> )	172,338	-
Net cash used in investing activities	(3,967,713)	(118,309)
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment	284,048	245,972
Proceeds from contributions restricted for capital investment	2,319,090	395,267
Net cash provided by financing activities	2,603,138	641,239
Net decrease in cash and cash equivalents	(188,423)	(351,522)
Cash and cash equivalents at beginning of year	1,641,022	1,992,544
Cash and cash equivalents at end of year	\$ 1,452,599	1,641,022

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2017 AND 2016

**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 component, 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 \$104,082 in 2017 and \$131,385 in 2016). 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 2017 and 2016, the Museum’s policies limit the appropriation of endowment assets for expenditure to 5.5% and 6.0% respectively, 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 \$442,882 and \$466,667 for the years ended June 30, 2017 and 2016, 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. SIPC protection does not protect against a decline in the value of securities. At June 30, 2017 and 2016, the Museum held \$720,709 and \$977,385, respectively, in cash balances in excess of the FDIC/SIPC-insured levels.

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, and derives its public charity status as an organization described in Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code.

Certain of the Museum's earned revenue activities are not directly related to its public charity status and hence are subject to unrelated business income tax. The Museum has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. 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 the Museum.

**Subsequent Events** – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through September 18, 2017, 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, 2017 and 2016 are summarized as follows:

	2017	2016
Donor-restricted endowments	\$ 585,000	610,000
Capital campaign	13,906,160	1,000,000
Museum operations and programs	772,774	950,812
	15,263,934	2,560,812
Less discount <sup>1</sup>	(637,083)	(65,036)
Less allowance for doubtful collection	(543,971)	(543,751)
	\$ 14,082,880	1,952,025

<sup>1</sup> 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 1.97% in 2017, and 1.15% in 2016.

Amounts due at June 30, 2017 and 2016 are as follows:

	2017	2016
<i>Unconditional promises expected to be collected in:</i>		
Less than one year	\$ 1,165,001	1,360,078
One year to five years	13,627,683	1,036,984
Greater than five years	471,250	163,750
	\$ 15,263,934	2,560,812

#### 4. Inventories and Prepayments

At June 30, 2017 and 2016, the following summarizes the Museum's inventories and prepayments:

	<b>2017</b>	<b>2016</b>
Museum store inventory	\$ 344,768	351,576
Prepaid exhibition expenses	196,329	163,045
Other prepayments	136,366	177,904
	<b>\$ 677,463</b>	<b>692,525</b>

#### 5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2017 and 2016 comprised the following:

	<b>2017</b>	<b>2016</b>
Equity mutual funds	\$ 27,571,640	22,589,552
Fixed income mutual funds	6,868,432	6,856,587
Corporate bonds and notes	7,167,898	4,603,794
Emerging markets debt funds	2,525,230	2,372,796
Real return mutual funds	3,361,000	3,096,340
Absolute return mutual funds	-	3,388,733
Balanced index mutual fund	69,464	69,446
Interests in private equity partnerships	13,465,210	8,822,818
	<b>61,028,874</b>	<b>51,800,066</b>
Money market funds and other cash and cash equivalents	1,635,209	1,643,756
	<b>\$ 62,664,083</b>	<b>53,443,822</b>

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

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 1,452,599	1,641,022
Short-term investments	1,551,229	2,550,757
Investments	59,660,255	49,252,043
	<b>\$ 62,664,083</b>	<b>53,443,822</b>

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, 2017 and 2016. 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, 2017 and 2016, such commitments totaled \$1,768,310 and \$1,239,850, 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, 2017 is summarized as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividend income, gross	\$ 127,421	738,389	–	865,810
Less investment fees	(17,168)	(86,914)	–	(104,082)
Interest and dividend income, net	110,253	651,475	–	761,728
Net appreciation in the fair value of investments	984,108	4,996,501	–	5,980,609
Net change in cumulative endowment losses	1,146,325	(1,146,325)	–	–
Net change in beneficial interest in charitable trusts	–	7,947	18,830	26,777
Total investment return	\$ 2,240,686	4,509,598	18,830	6,769,114

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
Less investment fees	(21,343)	(110,042)	–	(131,385)
Interest and dividend income, net	91,109	552,411	–	643,520
Net decline in the fair value of investments	(397,743)	(2,037,823)	(1,677)	(2,437,243)
Net change in cumulative endowment losses	(1,221,753)	1,221,753	–	–
Net change in beneficial interest in charitable trusts	–	(5,080)	(37,581)	(42,661)
Total investment return	\$ (1,528,387)	(268,739)	(39,258)	(1,836,384)

## 6. Beneficial Interest in Charitable Trusts

The changes in the Museum's beneficial interest in charitable remainder and perpetual trusts for the years ended June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Fair value at beginning of year	\$ 1,092,490	1,135,151
Increase (decline) in fair value <sup>1</sup>	26,777	(42,661)
Fair value at end of year	\$ 1,119,267	1,092,490

<sup>1</sup> The increase (decline) in fair value reported is net of distributions of \$59,318 and \$39,801 received from these trusts during the years ended June 30, 2017 and 2016, respectively.

## 7. Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	2017	2016
Land and land improvements	\$ 3,565,225	3,565,225
Main building	9,418,508	9,418,508
Mark building	42,367,982	42,367,982
Hoffman wing	18,892,260	18,892,260
Furniture and equipment	7,462,973	7,165,549
Leasehold improvements	448,139	448,139
	82,155,087	81,857,663
Less accumulated depreciation and amortization	(30,581,825)	(28,801,696)
	\$ 51,573,262	53,055,967

## 8. Museum Collections

During the years ended June 30, 2017 and 2016, the Museum acquired works of art for a total cost of \$414,552 and \$741,991, respectively. During these same periods, the Museum accepted donations of art with an estimated value of \$1,966,327 and \$2,370,654, 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.

During the year ended June 30, 2017, deaccessioned works of art were sold, realizing proceeds of \$172,338, which will be restricted for future acquisitions of art. No deaccessioned works of art were sold in 2016.

## 9. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2017 and 2016:

	2017	2016
Film Center tuition	\$ 110,292	117,516
Events and projects	338,478	363,626
Other	185,011	215,116
	\$ 633,781	696,258

## 10. Restrictions and Limitations on Net Asset Balances

### *Board-Designated Net Assets*

At June 30, 2017 and 2016, \$8,494,583 and \$7,882,723 of the Museum's unrestricted net assets, respectively, had been designated by the Board of Trustees for the following purposes:

	2017	2016
Quasi-endowment	\$ 7,984,583	7,446,285
Capital asset reserve	320,000	245,000
Specific operating expenses	190,000	191,438
	\$ 8,494,583	7,882,723

### *Temporarily Restricted Net Assets*

At June 30, 2017 and 2016, 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:

	2017	2016
Acquisition of works of art	\$ 1,168,357	841,760
Specific program expenses	7,002,096	4,575,719
Capital campaign	18,860,645	3,303,037
Future periods	289,254	201,335
	\$ 27,320,352	8,921,851

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, 2017 and 2016, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2017	2016
Acquisition of works of art	\$ 365,632	665,251
Capital campaign	86,516	145,267
Other operational support	4,658,889	5,197,687
	\$ 5,111,037	6,008,205

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, 2017 and 2016, the Museum held \$39,257,512 and \$38,973,835, respectively, in endowment funds. These funds earn investment income that is restricted or unrestricted, as follows:

	2017	2016
<i>Income restricted for:</i>		
Specific program expenses	\$ 28,081,616	27,816,797
Acquisition of works of art	1,408,305	1,408,305
Income unrestricted	9,767,591	9,748,733
	<b>\$ 39,257,512</b>	<b>38,973,835</b>

### 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, 2017, the Museum had incurred cumulative investment losses in excess of unappropriated accumulated endowment earnings totaling \$811,848 (\$1,958,173 at June 30, 2016). 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, 2017:

	<b>Donor-restricted endowment</b>			<b>Total</b>	<b>Board-designated endowment</b>	
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>		<b>Unrestricted</b>	<b>Total endowment</b>
Endowment net assets at beginning of year	\$ (1,958,173)	2,427,981	38,973,835	39,443,643	7,882,723	47,326,366
Contributions and bequests	-	20,945	264,847	285,792	171,251	457,043
Investment return	-	5,555,490	18,830	5,574,320	1,095,808	6,670,128
Net change in cumulative endowment losses	1,146,325	(1,146,325)	-	-	-	-
Appropriation of endowment assets for expenditure	-	(2,238,131)	-	(2,238,131)	(655,199)	(2,893,330)
Endowment net assets at end of year	<b>\$ (811,848)</b>	<b>4,619,960</b>	<b>39,257,512</b>	<b>43,065,624</b>	<b>8,494,583</b>	<b>51,560,207</b>

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-designated endowment	Total endowment
	Unrestricted	Temporarily restricted	Permanently restricted		Unrestricted	
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 below)	–	(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

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2017 and 2016:

	2017	2016
Appropriation of 5.5% (6.0% in 2016) spending rate to fund operations	\$ (2,675,104)	(2,813,180)
Utilization of Board-designated endowment to fund capital campaign costs	(38,808)	–
Collection of pledges to fund repayment of note payable	–	54,395
Utilization of Board-designated endowment to acquire capital assets	(179,418)	(241,828)
Total appropriation	\$ (2,893,330)	(3,000,613)

## 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, 2017 and 2016:

	2017	2016
Museum programs	\$ 135,063	241,730
Film Center programs	123,598	188,981
	\$ 258,661	430,711

## 12. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Rental sales gallery	\$ 252,991	257,483
Other	432,687	290,922
	\$ 685,678	548,405

### 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, 2017 and 2016 are summarized as follows:

	2017	2016
Salaries and related costs	\$ 9,526,679	9,412,143
Contract services	932,305	946,717
Professional services	151,576	157,541
Exhibition installation	595,342	593,297
Events	313,940	327,221
Acquisition of works of art (note 8)	414,552	741,991
Occupancy	999,216	957,776
Merchandise	741,708	685,995
Insurance	172,070	168,356
Advertising and marketing	442,882	466,667
Postage and shipping	291,036	357,401
Travel	223,976	255,323
Printing and publications	238,908	351,710
Equipment maintenance	486,104	574,926
Merchant fees	252,800	226,374
Supplies	299,452	209,053
Depreciation and amortization	1,780,129	1,769,879
In-kind expenses (note 11)	258,661	430,711
Other	824,894	951,349
	\$ 18,946,230	19,584,430

Exhibition-related costs in the preceding table totaled \$2,030,575 and \$2,119,249 for the years ended June 30, 2017 and 2016, 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 six-month period 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 year ended December 31, 2016, the match was increased to 75% and for the six months ended June 30, 2017, the match was 100%. This resulted in a total employer contribution of up to 3.5% of each participating employee's annual compensation (2.5% for the year ended June 30, 2016). The Museum contributed \$228,490 and \$71,967 to the Plan in the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

Rent expense associated with this arrangement totaled \$101,400 for each of the years ended June 30, 2017 and 2016.

### *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.

## **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, 2017, the approximate future minimum rental commitments under these leases are as follows:

<i>Years ending June 30,</i>	
2018	\$ 272,148
2019	199,675
2020	86,370
2021	67,462
2022	52,178
Thereafter	21,589
	<hr/>
	\$ 699,422

Rent expense associated with these lease arrangements totaled \$267,783 and \$256,044 for the years ended June 30, 2017 and 2016, respectively.

In addition, the Museum subleases a parking lot under single-year leases to an unrelated party. Annual rental revenues totaled \$348,324 and \$341,496 for the years ended June 30, 2017 and 2016, respectively.

## **17. Other Commitments and Contingencies**

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately \$287,874 and \$148,750 at June 30, 2017 and 2016, 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 \$46,547 and \$45,634 for the years ended June 30, 2017 and 2016, respectively. The amount of future lease commitments is included in the disclosures in note 16.

## **19. Reclassification of 2016 Comparative Totals**

Certain 2016 amounts presented herein have been reclassified to conform to the 2017 presentation.

## 20. Fair Value Measurements

At June 30, 2017, the following financial assets 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	\$ 11,786,392	–	11,786,392
Small and mid-cap domestic	3,305,419	–	3,305,419
Large-cap international	10,879,383	–	10,879,383
Small-cap international	1,600,446	–	1,600,446
Total equity mutual funds	27,571,640	–	27,571,640
Fixed income mutual funds	6,868,432	–	6,868,432
Corporate bonds and notes	7,167,898	–	7,167,898
Emerging markets debt funds	2,525,230	–	2,525,230
Real return mutual funds	3,361,000	–	3,361,000
Balanced index mutual funds	69,464	–	69,464
<i>Interests in private equity partnerships:</i>			
Absolute return hedge funds [A]	–	7,290,474	7,290,474
Private equity funds [B]	–	2,887,855	2,887,855
Real estate fund [C]	–	2,799,538	2,799,538
Real return fund [D]	–	487,343	487,343
Total interests in private equity partnerships	–	13,465,210	13,465,210
Total investments	47,563,664	13,465,210	61,028,874
Pledges receivable ( <i>see note 3</i> )	–	14,082,880	14,082,880
Beneficial interest in charitable trusts ( <i>see note 6</i> )	–	1,119,267	1,119,267
	\$ 47,563,664	28,667,357	76,231,021

Commitments and redemption schedules for those investments for which fair value is based on net asset values at June 30, 2017 are as follows:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 7,290,474	none	quarterly	70 days
Private equity funds [B]	2,887,855	1,768,310	not allowed	n/a
Real estate fund [C]	2,799,538	none	quarterly	60 days
Real return fund [D]	487,343	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 (“MLP’s”) with a focus on energy sector MLP’s.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2017 are as follows:

	<b>Investments</b>	<b>Pledges receivable</b>	<b>Beneficial interest in split interest agreements</b>	<b>Total</b>
Fair value at beginning of year	\$ 8,822,818	1,952,025	1,092,490	11,867,333
Sale of investments	(73,054)	-	-	(73,054)
Purchase of investments	4,052,060	-	-	4,052,060
Reinvestment of investment income	408,585	-	-	408,585
Net appreciation in the fair value of investments	254,801	-	-	254,801
Receipt of new pledges	-	15,829,157	-	15,829,157
Collection of pledge payments	-	(3,126,035)	-	(3,126,035)
Changes in the allowance for doubtful collection of receivables	-	(220)	-	(220)
Changes in the unamortized discount associated with pledges receivable	-	(572,047)	-	(572,047)
Change in beneficial interests in charitable trusts	-	-	26,777	26,777
Net changes	4,642,392	12,130,855	26,777	16,800,024
Fair value at end of year	\$ 13,465,210	14,082,880	1,119,267	28,667,357
	[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 1.97%. See note 3.

[C] The fair value of the Museum's beneficial interest in charitable remainder and perpetual trusts is based on the reported fair values of the underlying investments held in each trust, less the estimated present value of future payments to third party beneficiaries, if any, which approximate the present value of expected future cash flows. See note 6.

*Continued*

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

	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
Investments (see note 5):			
<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 (see note 3)	–	1,952,025	1,952,025
Beneficial interest in charitable trusts (see note 6)	–	1,092,490	1,092,490
	\$ 42,977,248	11,867,333	54,844,581

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

	<b>Fair value at June 30</b>	<b>Unfunded commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
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 (“MLP’s”) with a focus on energy sector MLP’s.

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

		<b>Investments</b>	<b>Pledges receivable</b>	<b>Beneficial interest in trusts</b>	<b>Total</b>
Fair value at beginning of year	\$	8,108,267	865,516	1,135,151	10,108,934
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		–	3,639,976	–	3,639,976
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 beneficial interest in charitable trusts	–	–	–	(42,661)	(42,661)
Net changes		714,551	1,086,509	(42,661)	1,758,399
Fair value at end of year	\$	8,822,818	1,952,025	1,092,490	11,867,333
		[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 charitable reminder and perpetual trusts is based on the reported fair values of the underlying investments held in each trust, less the estimated present value of future payments to third party beneficiaries, if any, 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 increase (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):

	<b>2017</b>	<b>2016</b>
Increase (decrease) in net assets	\$ 19,549,338	(4,333,340)
<i>Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,780,129	1,769,879
Net (appreciation) decline in the fair value of investments (note 5)	(5,980,609)	2,437,243
Acquisition of works of art (note 8)	414,552	741,991
Proceeds from the sale of works of art	(172,338)	-
Proceeds from contributions restricted for long-term investment	(284,048)	(245,972)
Proceeds from contributions restricted for capital acquisition	(2,319,090)	(395,267)
Net change in beneficial interest in charitable trusts (note 6)	(26,777)	42,661
<i>Net changes in:</i>		
Accounts receivable	307,267	(133,674)
Pledges receivable	(12,130,855)	(1,086,509)
Inventories and prepayments	15,062	150,580
Other assets	212,709	45,445
Accounts payable and accrued expenses	(11,702)	83,963
Accrued payroll and related expenses	(181,163)	28,614
Deferred revenues	(62,477)	19,934
Other liabilities	66,154	-
Total adjustments	(18,373,186)	3,458,888
Net cash provided by (used in) operating activities	\$ 1,176,152	(874,452)

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PORTLAND ART MUSEUM

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

YEARS ENDED JUNE 30, 2017 AND 2016

	<b>2017</b>	<b>2016</b>
<b>Operating revenues, gains, and other support:</b>		
Contributions and grants	\$ 263,755	417,764
Memberships	201,302	201,455
In-kind contributions	123,598	188,981
Admissions	331,870	349,216
Tuition and fees	319,816	327,426
Other revenues and gains	66,509	66,954
Total operating revenues and gains	1,306,850	1,551,796
Net transfers from Board-designated reserves	50,000	52,000
Total operating revenues, gains, and other support	1,356,850	1,603,796
<b>Direct expenses:</b>		
Program activities:		
Classes	455,129	539,211
Exhibitions	870,154	784,240
Other	60,505	61,617
Total program activities	1,385,788	1,385,068
Supporting activities:		
Management and general	212,454	237,812
Total supporting activities	212,454	237,812
Total direct expenses	1,598,242	1,622,880
Net operating loss	\$ (241,392)	(19,084)

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, 2017 AND 2016

**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, 2017 and 2016, as follows:

	<b>2017</b>	<b>2016</b>
Total direct expenses, as reported in the accompanying schedule of operating revenues and expenses of the Northwest Film Center	\$ 1,598,242	1,622,880
<i>Reconciling items:</i>		
Less management and general expenses	(212,454)	(237,812)
Plus shared institutional costs	503,151	501,823
Total reconciling items	290,697	264,011
Northwest Film Center program expenses, as reported in the statements of activities	\$ 1,888,939	1,886,891

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*Winkler Development*  
*Corporation*

Mr. Rodney Youckton  
*Director of Business Operations*  
*Lucky Eagle Casino*

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Mrs. Janet Geary  
*Chair*

Mr. H. Pat Ritz  
*Chair-Elect & Treasurer*

Mrs. Laura S. Meier  
*Secretary*

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<sup>1</sup> Executive committee

<sup>2</sup> Finance committee

<sup>3</sup> Audit committee

<sup>4</sup> Investment committee

<sup>5</sup> Governance committee

\* Deceased

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*Chief Financial Officer*

Mr. Donald Urquhart  
*Director of Collections*  
*and Exhibitions*

PORTLAND ART MUSEUM

**INQUIRIES AND OTHER INFORMATION**

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