



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Portland Art Museum

Financial Statements and Other Information
as of and for the Years Ended June 30, 2019 and 2018
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 periodically meets 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.

Mark Frandsen
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, 2019 and 2018, 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, 2019 and 2018, 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 31 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.

A handwritten signature in black ink that reads "Grant & Co. LLP". The signature is written in a cursive, flowing style.

September 24, 2019

PORTLAND ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Assets:						
Cash and cash equivalents (note 5)	\$ 1,866,629	2,040,315	3,906,944	1,548,113	186,848	1,734,961
Short-term investments (note 5)	–	1,397,583	1,397,583	–	3,538,985	3,538,985
Accounts receivable	293,197	–	293,197	177,190	–	177,190
Contributions receivable (note 3)	311,754	15,926,109	16,237,863	362,420	15,336,769	15,699,189
Inventories and prepayments (note 4)	1,332,133	–	1,332,133	836,852	–	836,852
Other assets	–	429,501	429,501	–	424,108	424,108
Investments (note 5)	7,799,991	56,721,706	64,521,697	8,417,443	56,292,673	64,710,116
Beneficial interest in charitable trusts (note 6)	–	1,117,009	1,117,009	–	1,136,614	1,136,614
Real estate investments, at cost (note 17)	4,837,854	–	4,837,854	4,837,854	–	4,837,854
Property and equipment (note 7)	48,522,157	6,125	48,528,282	50,163,328	–	50,163,328
Museum collections (note 8)						
Total assets	\$ 64,963,715	77,638,348	142,602,063	66,343,200	76,915,997	143,259,197
Liabilities:						
Accounts payable and accrued expenses	588,271	176,272	764,543	665,735	118,828	784,563
Accrued payroll and related expenses	918,075	–	918,075	838,952	–	838,952
Deferred revenues (note 9)	749,605	–	749,605	596,596	–	596,596
Other liabilities	–	176,144	176,144	–	183,986	183,986
Due to (from) other funds	(1,681,979)	1,681,979	–	(2,552,786)	2,552,786	–
Total liabilities	573,972	2,034,395	2,608,367	(451,503)	2,855,600	2,404,097
Net assets:						
Without donor restrictions:						
Available for programs and general operations	3,081,564	–	3,081,564	3,357,294	–	3,357,294
Designated by the Board of Trustees (note 10)	7,948,168	–	7,948,168	8,436,227	–	8,436,227
Net investment in capital assets and real estate investments	53,360,011	–	53,360,011	55,001,182	–	55,001,182
Total net assets without donor restrictions	64,389,743	–	64,389,743	66,794,703	–	66,794,703
With donor restrictions (note 11)	–	75,603,953	75,603,953	–	74,060,397	74,060,397
Total net assets	64,389,743	75,603,953	139,993,696	66,794,703	74,060,397	140,855,100
Commitments and contingencies (notes 5, 16, 17, 18, and 19)						
Total liabilities and net assets	\$ 64,963,715	77,638,348	142,602,063	66,343,200	76,915,997	143,259,197

See accompanying notes to financial statements.

PORTLAND ART MUSEUM

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:						
Contributions, memberships, and grants	\$ 4,758,702	8,691,067	13,449,769	4,936,278	10,871,432	15,807,710
In-kind contributions (<i>note 13</i>)	154,278	–	154,278	319,180	–	319,180
Financial support received from volunteer groups	170,175	–	170,175	219,980	–	219,980
Admissions	2,153,803	–	2,153,803	3,072,968	–	3,072,968
Museum store sales	1,409,161	–	1,409,161	1,660,395	–	1,660,395
Rental income	2,599,862	–	2,599,862	2,516,524	–	2,516,524
Tuition and fees	394,111	–	394,111	340,691	–	340,691
Total investment return (<i>note 5</i>)	369,389	2,435,054	2,804,443	603,266	3,354,535	3,957,801
Other revenues and gains (<i>note 14</i>)	457,410	7,806	465,216	484,642	19,877	504,519
Total revenues and gains	12,466,891	11,133,927	23,600,818	14,153,924	14,245,844	28,399,768
Net assets released from restrictions (<i>note 11</i>)	9,590,371	(9,590,371)	–	5,951,463	(5,951,463)	–
Total revenues, gains, and other support	22,057,262	1,543,556	23,600,818	20,105,387	8,294,381	28,399,768
Expenses (<i>note 15</i>):						
Program activities:						
Acquisition of art (<i>note 8</i>)	757,179	–	757,179	734,534	–	734,534
Museum programs	16,491,957	–	16,491,957	13,177,561	–	13,177,561
Film center programs	2,133,187	–	2,133,187	2,065,639	–	2,065,639
Total program activities	19,382,323	–	19,382,323	15,977,734	–	15,977,734
Supporting activities:						
Management and general	3,031,349	–	3,031,349	3,072,041	–	3,072,041
Fundraising, membership, and development	2,048,550	–	2,048,550	2,186,254	–	2,186,254
Total supporting activities	5,079,899	–	5,079,899	5,258,295	–	5,258,295
Total expenses	24,462,222	–	24,462,222	21,236,029	–	21,236,029
Increase (decrease) in net assets	(2,404,960)	1,543,556	(861,404)	(1,130,642)	8,294,381	7,163,739
Net assets at beginning of year	66,794,703	74,060,397	140,855,100	67,925,345	65,766,016	133,691,361
Net assets at end of year	\$ 64,389,743	75,603,953	139,993,696	66,794,703	74,060,397	140,855,100

See accompanying notes to financial statements.

PORTLAND ART MUSEUM

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 8,510,872	9,018,722
Cash received from admissions and service recipients	3,599,966	4,703,228
Interest and dividends received	1,178,912	954,614
Other receipts	3,459,189	3,361,734
Cash paid to employees and suppliers	(19,010,090)	(17,471,211)
Net cash provided by (used in) operating activities	(2,261,151)	567,087
Cash flows from investing activities:		
Proceeds from the sale of investments	9,425,922	12,377,680
Purchases of investments	(4,303,106)	(15,478,554)
Reinvestment of investment income	(1,147,859)	(950,903)
Architectural fees and other capital campaign costs	(3,042,370)	(419,381)
Acquisition of property and equipment	(299,437)	(459,029)
Acquisition of works of art (<i>note 8</i>)	(757,179)	(734,534)
Proceeds from the sale of works of art (<i>note 8</i>)	722	74,898
Net cash used in investing activities	(123,307)	(5,589,832)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	872,361	1,583,372
Proceeds from contributions restricted for capital investment	3,684,080	3,721,726
Net cash provided by financing activities	4,556,441	5,305,098
Net increase in cash and cash equivalents	2,171,983	282,362
Cash and cash equivalents at beginning of year	1,734,961	1,452,599
Cash and cash equivalents at end of year	\$ 3,906,944	1,734,961

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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 – Net assets, revenues, gains and losses 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:

- *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor-imposed stipulations. From time to time, the Museum’s Board of Trustees may designate a portion of these net assets for particular purposes and objectives.
- *Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Museum and/or the passage of time. These balances represent the unexpended portion of donor-restricted contributions and investment return to be used for specific programs and activities as directed by the donor. The balances also include net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum (e.g., endowment funds). 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 net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are also reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed 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.

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. Cash and cash equivalents held as part of the Museum’s investment portfolio, and where management’s intention is to use the cash to acquire investments to be held long-term, are classified as investments.

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 – Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair value in the statement of financial position. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. For applicable investments, manager-reported net asset value (“NAV”) is used as a practical expedient to estimate fair value. Valuations provided by fund managers consider variables such as the financial performance and sales of underlying investments and other pertinent information. The organization reviews valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

Net investment return, which includes both current yield (interest and dividend income) and net appreciation (decline) in the fair value of investments (both the realized gains or losses and the unrealized appreciation (decline) of those

investments), is reported in the statement of activities, net of investment expenses. Interest income is accrued as earned. 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.

Measurement of Contributions Receivable – The Museum has adopted fair value as the initial and ongoing measurement for contributions receivable. Accordingly, the Museum’s discount rate assumptions are revised at each measurement date to reflect current market conditions.

Inventories – Inventories consist primarily of educational materials and other items held for sale in the Museum store, which 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.

Museum Collections – The collections are maintained for public exhibition, education, and research in the 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 net assets with do

nor restrictions or without donor restrictions, 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 net assets with donor restrictions for the acquisition of works of art and are not available for the direct care of the existing collection.

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.

Contributions – Contributions, which include unconditional promises to give, are recognized as revenues in the period the donor's commitment is received. 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 and grants received with donor stipulations that limit the use of the donated assets are reported as net assets with donor restrictions.

Unconditional promises to give with payments due in future periods, are recorded as increases in net assets with donor restrictions at the estimated present value of future cash flows using credit adjusted discount rates which articulate to the collection period of the respective contribution. In subsequent years, adjustments are made to carry the receivables at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the assets. Amortization of the discount is recorded as additional contribution revenue in subsequent years in the appropriate net asset class. Promises to give are written off when deemed uncollectible.

Contributions and grants receivable are reported net of an allowance for estimated uncollectible promises.

When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets restricted to the acquisition of capital assets with such donor stipulations are reported as net assets with donor restrictions; the restrictions are considered to be released at the time the asset is placed in service.

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 generally accepted accounting principles, 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 contributions without donor restrictions 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 \$395,375 and \$403,251 for the years ended June 30, 2019 and 2018, 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 and short-term 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 or 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, 2019 and 2018, the Museum held \$3,045,086 and \$951,902, respectively, in cash balances in excess of 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 recorded neither reserves nor related accruals for interest and penalties for uncertain income tax positions at the Museum.

Subsequent Events – Subsequent events have been evaluated by management through September 24, 2019, 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. Contributions Receivable

Contributions receivable at June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Donor-restricted endowments	\$ 850,000	875,000
Capital campaign	15,273,707	15,032,289
Museum operations and programs	809,922	707,164
	16,933,629	16,614,453
Less discount ¹	(344,871)	(563,272)
Less allowance for doubtful collection	(350,895)	(351,992)
	\$ 16,237,863	15,699,189

¹ 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 2.23% in 2019, and 3.08% in 2018.

Amounts due at June 30, 2019 and 2018 are as follows:

	2019	2018
<i>Unconditional promises expected to be collected in:</i>		
Less than one year	\$ 10,382,847	9,748,559
One year to five years	5,445,282	5,357,644
Greater than five years	1,105,500	1,508,250
	\$ 16,933,629	16,614,453

4. Inventories and Prepayments

At June 30, 2019 and 2018, the following summarizes the Museum's inventories and prepayments:

	2019	2018
Museum store inventory	\$ 344,298	300,997
Prepaid exhibition expenses	726,462	294,041
Other prepayments	261,373	241,814
	\$ 1,332,133	836,852

5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2019 and 2018 comprised the following:

	2019	2018
Equity mutual funds	\$ 27,257,008	28,172,592
Fixed income mutual funds	8,371,059	8,575,833
Corporate bonds and notes	10,823,919	12,556,016
Emerging markets' debt funds	2,578,324	2,412,305
Real return mutual funds	2,455,974	2,912,819
Balanced index mutual funds	78,482	75,123
Interests in private equity partnerships	14,354,509	13,538,758
	65,919,275	68,243,446
Money market funds and other cash and cash equivalents	3,906,949	1,740,616
	\$ 69,826,224	69,984,062

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

	2019	2018
Cash and cash equivalents	\$ 3,906,944	1,734,961
Short-term investments	1,397,583	3,538,985
Investments	64,521,697	64,710,116
	\$ 69,826,224	69,984,062

At June 30, 2019 and 2018, cash and investments were held for the following purposes:

	2019	2018
Operations	\$ 7,728,754	8,498,046
Capital campaign	9,259,439	8,902,361
Endowment funds ¹	52,838,031	52,583,655
	\$ 69,826,224	69,984,062

¹ Includes both donor-restricted and Board-designated endowment funds.

Continued

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, 2019 and 2018. 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.

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, 2019 and 2018, such commitments totaled \$705,386 and \$626,503, respectively. See note 22 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.

Total investment return for the year ended June 30, 2019 is summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Interest and dividend income, net	\$ 150,379	1,028,533	1,178,912
Net appreciation in the fair value of investments	219,010	1,426,126	1,645,136
Net change in beneficial interest in charitable trusts	-	(19,605)	(19,605)
Total investment return	\$ 369,389	2,435,054	2,804,443

Total investment return for the year ended June 30, 2018 is summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Interest and dividend income, net	\$ 119,241	835,373	954,614
Net appreciation in the fair value of investments	484,025	2,501,815	2,985,840
Net change in beneficial interest in charitable trusts	-	17,347	17,347
Total investment return	\$ 603,266	3,354,535	3,957,801

6. Beneficial Interest in Charitable Trusts

The Museum has been named the beneficiary of various 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 various charitable remainder trusts, where a third party has the right to receive income from the trust during his or her lifetime and the Museum is entitled to a share of the remaining assets after his or her death.

Charitable remainder trusts	\$ 71,339	67,641
Perpetual trusts	1,045,670	1,068,973
	<u>1,117,009</u>	<u>1,136,614</u>

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.

The changes in the Museum's beneficial interest in charitable remainder and perpetual trusts for the years ended June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Fair value at beginning of year	\$ 1,136,614	1,119,267
Increase (decline) in fair value ¹	(19,605)	17,347
Fair value at end of year	<u>\$ 1,117,009</u>	<u>1,136,614</u>

¹ The increase (decline) in fair value reported is net of distributions of \$51,245 and \$41,146 received from these trusts during the years ended June 30, 2019 and 2018, respectively.

7. Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
Land and land improvements	\$ 3,565,225	3,565,225
Main building	9,418,508	9,418,508
Mark building	42,415,682	42,384,922
Hoffman wing	18,892,260	18,892,260
Furniture and equipment	8,079,372	7,870,119
Leasehold improvements	524,563	480,082
Construction-in-progress	17,943	3,000
	<u>82,913,553</u>	<u>82,614,116</u>
Less accumulated depreciation and amortization	(34,385,271)	(32,450,788)
	<u>\$ 48,528,282</u>	<u>50,163,328</u>

8. Museum Collections

During the years ended June 30, 2019 and 2018, the Museum acquired works of art for a total cost of \$757,179 and \$734,534, respectively. During these same periods, the Museum accepted donations of art with an estimated value of \$6,621,756 and \$1,338,555, respectively.

During the years ended June 30, 2019 and 2018, deaccessioned works of art were sold, realizing proceeds of \$722 and \$74,898, respectively, which will be restricted for future acquisitions of art.

9. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2019 and 2018:

	2019	2018
Film Center tuition	\$ 89,866	116,559
Rental Events	361,377	320,404
Exhibition Fees	95,000	—
Membership Fees	169,270	157,980
Other	34,092	1,653
	\$ 749,605	596,596

10. Net Assets Designated by the Board of Trustees

At June 30, 2019 and 2018, \$7,948,168 and \$8,436,227, respectively, of the Museum's net assets without donor-imposed restrictions had been designated by the Board of Trustees for the following purposes:

	2019	2018
Quasi-endowment	\$ 7,573,168	7,871,227
Capital asset reserve	375,000	370,000
Specific operating expenses	—	195,000
	\$ 7,948,168	8,436,227

11. Net Assets with Donor Restrictions

The following summarizes the Museum's net assets with donor-imposed restrictions as of June 30, 2019 and 2018:

	2019	2018
<i>Expendable net assets restricted for the following purposes:</i>		
Acquisition of works of art	\$ 726,872	676,542
Specific program expenses	3,657,522	3,724,561
Capital campaign	24,227,211	23,372,807
	28,611,605	27,773,910

Expendable net assets unrestricted as to purpose, but restricted as to time

	324,709	307,763
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Total expendable net assets

Endowment restricted for the following purposes:

Funded staff positions	12,468,894	12,500,233
Access and education	9,035,263	9,055,238
Museum operations	7,182,437	7,206,498
Exhibitions	5,915,127	5,080,617
Acquisition of works of art	1,868,534	1,876,998

36,470,255 35,719,584

Endowment unrestricted as to purpose

	9,151,714	9,190,167
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Total endowment (note 12)

Other donor-restricted net assets:

Beneficial interest in perpetual trusts	1,045,670	1,068,973
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Total net assets with donor restrictions

	\$ 75,603,953	74,060,397
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Net Assets Released from Donor Restrictions

For the years ended June 30, 2019 and 2018, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2019	2018
Acquisition of works of art	\$ 694,000	701,536
Capital campaign	3,517,749	527,671
Other operational support	5,378,622	4,722,256
	\$ 9,590,371	5,951,463

12. Endowment

The Museum's endowment includes both donor-restricted endowment funds and funds without donor restrictions designated by the Board of Trustees to function as endowment (quasi-endowment). As required by generally accepted accounting principles, net assets associated with endowment, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The following summarizes the Museum's endowment-related activities for the year ended June 30, 2019:

	With donor restrictions			Total	Without donor restrictions	Total endowment
	Underwater endowment	Accumulated endowment return	Endowment principal			
Endowment net assets at beginning of year	\$ (694,874)	5,413,497	40,191,128	44,909,751	8,436,227	53,345,978
Contributions and bequests	—	—	878,165	878,165	23,965	902,130
Investment return	—	2,099,375	—	2,099,375	367,176	2,466,551
Net change in cumulative endowment losses	(19,748)	—	—	(19,748)	—	(19,748)
Appropriation of endowment assets for expenditure	—	(2,245,574)	—	(2,245,574)	(879,200)	(3,124,774)
Endowment net assets at end of year	\$ (714,622)	5,267,298	41,069,293	45,621,969	7,948,168	53,570,137

The following summarizes the Museum's endowment-related activities for the year ended June 30, 2018:

	With donor restrictions			Total	Without donor restrictions	Total endowment
	Underwater endowment	Accumulated endowment return	Endowment principal			
Endowment net assets at beginning of year	\$ (811,848)	4,562,350	38,200,040	41,950,542	8,494,583	50,445,125
Contributions and bequests	—	—	1,991,088	1,991,088	49,778	2,040,866
Investment return	—	3,108,884	—	3,108,884	605,733	3,714,617
Net change in cumulative endowment losses	116,974	—	—	116,974	—	116,974
Appropriation of endowment assets for expenditure	—	(2,257,737)	—	(2,257,737)	(713,867)	(2,971,604)
Endowment net assets at end of year	\$ (694,874)	5,413,497	40,191,128	44,909,751	8,436,227	53,345,978

Continued

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2019 and 2018:

	2019	2018
Appropriation of 5.00% (5.25% in 2018) spending rate to fund operations	\$ (2,639,278)	(2,659,608)
Utilization of Board-designated endowment for operations	(195,000)	–
Utilization of Board-designated endowment to acquire capital assets	(290,496)	(311,996)
Total appropriation	\$ (3,124,774)	(2,971,604)

Interpretation of Relevant Law – The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) governs Oregon charitable institutions with respect to the management, investment and expenditure of donor-restricted endowment funds.

The Museum’s Board of Trustees has interpreted Oregon’s adoption of UPMIFA as requiring the Museum to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Museum has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment’s purchasing power is only one of several factors that are considered in managing and investing these funds.

Furthermore, in accordance with UPMIFA, a portion of the endowment’s original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA. As a result of this interpretation, the Museum classifies as endowment principal (1) the original value of gifts donated to the donor-restricted endowment, (2) subsequent gifts to the endowment, and (3) accumulations to the endowment made pursuant to the direction of the applicable donor gift instrument.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as accumulated endowment return 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 endowment principal represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce accumulated endowment return to the extent that donor-imposed restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces endowment principal.

Endowments with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. In addition, the Museum’s Board of Trustees interprets UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law, and the organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater.

At June 30, 2019, the Museum held endowment funds with original gift values of \$5,079,318, fair value of \$4,364,696, and deficiencies of \$714,622.

At June 30, 2018, the Museum held endowment funds with original gift values of \$5,076,339, fair value of \$4,381,465, and deficiencies of \$694,874.

Investment and Spending Policies – In accordance with UPMIFA, the Museum’s Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Museum and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Museum; and
- The investment policies of the Museum.

To meet its objective, for 2019 and 2018, the Museum’s policies limit the appropriation of endowment assets for expenditure to 5.0% and 5.25%, respectively, of the market value of such investments, computed on a thirteen-quarter trailing average. Actual endowment return earned in excess of distributions under this policy is reinvested as part of the Museum’s endowment management. For years when actual endowment return is less than distributions under the policy, the short-fall is covered by realized and unrealized returns from prior years. If cumulative endowment return is exhausted, any remaining loss or appropriation reduces endowment principal. In years when the overall endowment is underwater, the Board may permit continued spending from principal in accordance with its policies for spending from underwater endowments.

13. In-Kind Contributions

The Museum is the recipient of various in-kind contributions of goods and services for which objective measurement or valuation is available. These in-kind contributions are reported in the accompanying financial statements as follows for the years ended June 30, 2019 and 2018:

		2019	2018
Museum programs	\$	81,056	151,294
Film Center programs		73,222	167,886
	\$	154,278	319,180

14. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2019 and 2018:

		2019	2018
Rental sales gallery	\$	285,617	297,062
Other		179,599	207,457
	\$	465,216	504,519

15. Expenses

The costs of providing the various programs and other activities of the Museum have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques, such as square footage, headcount, or percentage of time and effort, as appropriate.

Costs by their natural classification for the year ended June 30, 2019 are summarized as follows:

	Program activities				Supporting activities			Total
	Acquisition of art	Museum programs	Film center	Sub-total	Management and general	Fund-raising, membership, and development	Sub-total	
Salaries and related costs	\$ —	6,496,843	1,093,225	7,590,068	1,825,315	1,175,700	3,001,015	10,591,083
Services and professional fees	—	3,861,678	77,571	3,939,249	470,320	476,530	946,850	4,886,099
Exhibition installation	—	662,391	143,026	805,417	—	—	—	805,417
Acquisition of art	757,179	—	—	757,179	—	—	—	757,179
Occupancy	—	661,272	196,906	858,178	166,786	8,329	175,115	1,033,293
Merchandise	—	658,077	17,851	675,928	—	—	—	675,928
Travel and events	—	554,081	56,494	610,575	55,380	60,572	115,952	726,527
Printing, publications and advertising	—	650,026	208,741	858,767	29,572	123,492	153,064	1,011,831
Equipment and supplies	—	535,064	93,705	628,769	182,216	51,985	234,201	862,970
Merchant and bank fees	—	154,767	17,529	172,296	43,509	67,310	110,819	283,115
Depreciation and amortization	—	1,369,586	100,315	1,469,901	441,803	22,779	464,582	1,934,483
Other	—	423,278	127,824	551,102	281,342	61,853	343,195	894,297
	757,179	16,027,063	2,133,187	18,917,429	3,496,243	2,048,550	5,544,793	24,462,222
Allocation of exhibitions' overhead costs	—	464,894	—	464,894	(464,894)	—	(464,894)	—
	\$ 757,179	16,491,957	2,133,187	19,382,323	3,031,349	2,048,550	5,079,899	24,462,222

Costs by their natural classification for the year ended June 30, 2018 are summarized as follows:

	Program activities				Supporting activities			Total
	Acquisition of art	Museum programs	Film center	Sub-total	Management and general	Fund-raising, membership, and development	Sub-total	
Salaries and related costs	\$ —	6,191,585	1,042,737	7,234,322	1,868,618	1,173,772	3,042,390	10,276,712
Services and professional fees	—	1,190,756	74,887	1,265,643	422,801	273,368	696,169	1,961,812
Exhibition installation	—	683,921	137,619	821,540	—	—	—	821,540
Acquisition of art	734,534	—	—	734,534	—	—	—	734,534
Occupancy	—	646,666	205,190	851,856	160,852	8,061	168,913	1,020,769
Merchandise	—	812,452	8,854	821,306	—	—	—	821,306
Travel and events	—	353,847	23,089	376,936	56,859	329,611	386,470	763,406
Printing, publications and advertising	—	449,408	282,907	732,315	32,421	210,356	242,777	975,092
Equipment and supplies	—	623,730	98,427	722,157	186,213	51,329	237,542	959,699
Merchant and bank fees	—	165,371	17,677	183,048	41,441	75,735	117,176	300,224
Depreciation and amortization	—	1,323,199	96,917	1,420,116	426,839	22,008	448,847	1,868,963
Other	—	355,594	77,335	432,929	257,029	42,014	299,043	731,972
	734,534	12,796,529	2,065,639	15,596,702	3,453,073	2,186,254	5,639,327	21,236,029
Allocation of exhibitions' overhead costs	—	381,032	—	381,032	(381,032)	—	(381,032)	—
	\$ 734,534	13,177,561	2,065,639	15,977,734	3,072,041	2,186,254	5,258,295	21,236,029

Exhibition-related costs in the preceding tables totaled \$2,149,503 and \$1,774,998 for the years ended June 30, 2019 and 2018, respectively. Exhibition-related costs vary significantly from year to year, depending on the number and size of exhibitions installed.

16. 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 years ended June 30, 2019 and 2018 the Museum matched participating employees' contributions to the Plan, up to 4% of total annual compensation. Total Museum contributions to the Plan amounted to \$196,712 and \$208,873 for the years ended June 30, 2019 and 2018, respectively.

17. 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.

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

Continued

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, 2019 and 2018.

Rent expense associated with this arrangement totaled \$101,400 for each of the years ended June 30, 2019 and 2018.

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.

18. 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 2023.

At June 30, 2019, the approximate future minimum rental commitments under these leases are as follows:

<i>Years ending June 30,</i>	
2020	\$ 135,929
2021	120,631
2022	122,834
2023	95,105
2024	30,987
	\$ 505,486

Rent expense associated with these lease arrangements totaled \$188,036 and \$241,167 for the years ended June 30, 2019 and 2018, respectively.

In addition, the Museum subleases a parking lot under single-year leases to an unrelated party. Annual rental revenues totaled \$373,061 and \$355,296 for the years ended June 30, 2019 and 2018, respectively.

19. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately \$919,865 and \$689,124 at June 30, 2019 and 2018, respectively. In addition, the Museum has outstanding commitments related to the capital campaign totaling \$394,000 at June 30, 2019. The Museum had no outstanding commitments related to the capital campaign at June 30, 2018.

20. Liquidity and Availability of Financial Assets

Looking forward, financial assets available for general expenditure within one year of the statement of financial position date comprise the following at June 30, 2019 and 2018:

	2019	2018
Total financial assets available to fund general operations at June 30	\$ 23,031,929	23,324,932
Less financial assets not available within one year	(17,710,208)	(17,003,000)
	5,321,721	6,321,932
<i>Plus other funds subject to appropriation for expenditure:</i>		
Endowment appropriations for operations	888,047	871,385
Board-designated funds approved for expenditure in the next fiscal year	–	195,000
Estimated trust distributions in the next fiscal year	51,000	41,000
Total financial assets available within one year	\$ 6,260,768	7,429,317

As part of its liquidity management, the Museum has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Museum invests cash in excess of daily requirements in short-term investments and money market funds.

In addition, the Museum holds quasi-endowment funds totaling \$7,573,168 at June 30, 2019 (\$7,871,227 in 2018). Although the Museum does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see note 22 for additional disclosures about the Museum's investments).

21. 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 \$48,501 and \$47,491 for the years ended June 30, 2019 and 2018, respectively. The amount of future lease commitments is included among the disclosures in note 18.

22. Fair Value Measurements

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

- Investments
- Contributions 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.

Finally, the net asset value per share, or its equivalent, such as member units or ownership interests in partners' capital, is used as a practical expedient to estimate the fair value of certain hedge funds, private equity funds, funds of funds, and limited partnerships that do not have readily determinable fair values.

All financial assets and liabilities carried at fair value, with the exception of investments measured at fair value using net asset value as a practical expedient, have been classified, for disclosure purposes, based on a hierarchy defined under generally accepted accounting principles. 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.

At June 30, 2019, the following table summarizes the financial assets measured at fair value on a recurring basis, as well as those assets measured using the net asset value per share as a practical expedient:

	Level 1	Level 3	Total
Investments, measured at fair value (see note 5):			
<i>Equity mutual funds:</i>			
Large-cap domestic	\$ 11,103,252	–	11,103,252
Small and mid-cap domestic	3,291,717	–	3,291,717
Large-cap international	11,405,529	–	11,405,529
Small-cap international	1,456,510	–	1,456,510
Total equity mutual funds	27,257,008	–	27,257,008
Fixed income mutual funds	8,371,059	–	8,371,059
Corporate bonds and notes	10,823,919	–	10,823,919
Emerging markets' debt funds	2,578,324	–	2,578,324
Real return mutual funds	2,455,974	–	2,455,974
Balanced index mutual funds	78,482	–	78,482
Total investments, measured at fair value	51,564,766	–	51,564,766
Interests in private equity partnerships, measured at net asset value			14,354,509
Total investments (see note 5)			65,919,275
Contributions receivable (see note 3)	–	16,237,863	16,237,863
Beneficial interest in charitable trusts (see note 6)	–	1,117,009	1,117,009

Investments measured at fair value using net asset value as a practical expedient are as follows at June 30, 2019:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 6,337,698	none	quarterly	70 days
Private equity funds [B]	3,445,700	705,386	not allowed	n/a
Real estate fund [C]	4,076,917	none	quarterly	60 days
Real return fund [D]	494,194	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.

Continued

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2019 are as follows:

	Contributions receivable	Beneficial interest in charitable trusts
Fair value at beginning of year	\$ 15,699,189	1,136,614
Receipt of new contributions receivable	4,083,229	–
Collection of contributions receivable	(3,764,053)	–
Changes in the allowance for doubtful collection of receivables	1,097	–
Changes in the unamortized discount associated with contributions receivable	218,401	–
Change in beneficial interests in charitable trusts	–	(19,605)
Net changes	538,674	(19,605)
Fair value at end of year	\$ 16,237,863	1,117,009
	[A]	[B]

[A] The fair value of contributions receivable is based on the expected payment date, using a current discount rate of 2.23%. See note 3.

[B] 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.

At June 30, 2018, the following table summarizes the financial assets measured at fair value on a recurring basis, as well as those assets measured using the net asset value per share as a practical expedient:

	Level 1	Level 3	Total
Investments, measured at fair value (<i>see note 6</i>):			
<i>Equity mutual funds:</i>			
Large-cap domestic	\$ 11,581,050	–	11,581,050
Small and mid-cap domestic	3,844,315	–	3,844,315
Large-cap international	11,100,725	–	11,100,725
Small-cap international	1,646,502	–	1,646,502
Total equity mutual funds	28,172,592	–	28,172,592
Fixed income mutual funds	8,575,833	–	8,575,833
Corporate bonds and notes	12,556,016	–	12,556,016
Emerging markets' debt funds	2,412,305	–	2,412,305
Real return mutual funds	2,912,819	–	2,912,819
Balanced index mutual funds	75,123	–	75,123
Total investments, measured at fair value	54,704,688	–	54,704,688
Interests in private equity partnerships, measured at net asset value			13,538,758
Total investments (<i>see note 5</i>)			68,243,446
Contributions receivable (<i>see note 3</i>)	–	15,699,189	15,699,189
Beneficial interest in charitable trusts (<i>see note 6</i>)	–	1,136,614	1,136,614

Investments measured at fair value using net asset value as a practical expedient are as follows at June 30, 2018:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 6,269,066	none	quarterly	70 days
Private equity funds [B]	2,796,596	626,503	not allowed	n/a
Real estate fund [C]	3,982,402	none	quarterly	60 days
Real return fund [D]	490,694	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, 2018 are as follows:

	Contributions receivable	Beneficial interest in charitable trusts
Fair value at beginning of year	\$ 14,082,880	1,119,267
Receipt of new contributions receivable	7,202,630	–
Collection of contributions receivable	(5,852,110)	–
Changes in the allowance for doubtful collection of receivables	191,979	–
Changes in the unamortized discount associated with contributions receivable	73,810	–
Change in beneficial interests in charitable trusts	–	17,347
Net changes	1,616,309	17,347
Fair value at end of year	\$ 15,699,189	1,136,614
	[A]	[B]

[A] The fair value of contributions receivable is based on the expected payment date, using a current discount rate of 3.08%. See note 3.

[B] 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.

23. Recently-Adopted Accounting Standards

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Museum implemented ASU No. 2016-14 during the year ended June 30, 2018 and has applied this update retrospectively to all periods presented.

In addition, in May of 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for*

Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which exempts investments measured using the net asset value practical expedient in FASB ASC No. 820, *Fair Value Measurements and Disclosures*, from categorization within the fair value hierarchy. The guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2016.

24. Statements of Cash Flows Reconciliation

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

	2019	2018
Increase (or decrease) in net assets	\$ (861,404)	7,163,739
<i>Adjustments to reconcile the increase (or decrease) in net assets to the net cash used in (or provided by) operating activities:</i>		
Depreciation and amortization	1,934,483	1,868,963
Net appreciation in the fair value of investments (note 5)	(1,645,136)	(2,985,840)
Acquisition of works of art (note 8)	757,179	734,534
Proceeds from the sale of works of art	(722)	(74,898)
Proceeds from contributions restricted for long-term investment	(872,361)	(1,583,372)
Proceeds from contributions restricted for capital acquisition	(3,684,080)	(3,721,726)
Architectural fees and other capital campaign costs	3,042,370	419,381
Net change in beneficial interest in charitable trusts (note 6)	19,605	(17,347)
<i>Net changes in:</i>		
Accounts receivable	(116,007)	7,050
Contributions receivable	(538,674)	(1,616,309)
Inventories and prepayments	(495,281)	(159,389)
Other assets	(5,393)	(1,307)
Accounts payable and accrued expenses	(20,020)	365,326
Accrued payroll and related expenses	79,123	216,823
Deferred revenues	153,009	(37,185)
Other liabilities	(7,842)	(11,356)
Total adjustments	(1,399,747)	(6,596,652)
Net cash used in (or provided by) operating activities	\$ (2,261,151)	567,087



PORTLAND ART MUSEUM

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

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating revenues, gains, and other support:		
Contributions and grants	\$ 418,228	380,413
Memberships	184,152	195,909
In-kind contributions	73,222	167,886
Admissions	340,741	407,043
Tuition and fees	394,111	340,691
Other revenues and gains	90,304	101,900
Total operating revenues and gains	1,500,758	1,593,842
Net transfers from Board-designated reserves	42,671	44,206
Total operating revenues, gains, and other support	1,543,429	1,638,048
Direct expenses:		
Program activities:		
Classes	608,692	532,900
Exhibitions	864,531	911,112
Other	74,735	99,785
Total program activities	1,547,958	1,543,797
Supporting activities:		
Management and general	299,802	205,424
Total supporting activities	299,802	205,424
Total direct expenses	1,847,760	1,749,221
Net operating loss	\$ (304,331)	(111,173)

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, 2019 AND 2018

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, 2019 and 2018, as follows:

	2019	2018
Total direct expenses, as reported in the accompanying schedule of operating revenues and expenses of the Northwest Film Center	\$ 1,847,760	1,749,221
<i>Reconciling items:</i>		
Less management and general expenses	(299,802)	(205,424)
Plus shared institutional costs	585,229	521,842
Total reconciling items	285,427	316,418
Northwest Film Center program expenses, as reported in the statements of activities	\$ 2,133,187	2,065,639

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PORTLAND ART MUSEUM

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