



Portland Art Museum

Consolidated Financial Statements and Other
Information as of and for the Years Ended June 30, 2022
and 2021, and Reports of Independent Accountants

PORTLAND ART MUSEUM

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Report of the Treasurer

The consolidated 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 consolidated 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.

Jin Park
Treasurer, Board of Trustees
Portland Art Museum

REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
Portland Art Museum:*

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Portland Art Museum, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021 and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Portland Art Museum as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Portland Art Museum and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Portland Art Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Portland Art Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Portland Art Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the financial schedules on pages 33 through 34 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 "Amy McLean & Co. LLP". The signature is written in a cursive, flowing style.

October 18, 2022

PORTLAND ART MUSEUM
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Assets:						
Cash and cash equivalents <i>(note 5)</i>	\$ 8,417,121	–	8,417,121	6,565,918	109,187	6,675,105
Short-term investments <i>(note 5)</i>	495,845	2,980,371	3,476,216	–	3,798,437	3,798,437
Accounts receivable	282,450	–	282,450	31,193	–	31,193
Contributions receivable <i>(note 3)</i>	933,301	19,020,611	19,953,912	331,146	10,803,813	11,134,959
Inventories and prepayments <i>(note 4)</i>	494,004	7,500	501,504	948,149	–	948,149
Other assets	–	466,663	466,663	–	475,890	475,890
Investments <i>(note 5)</i>	8,126,070	98,218,269	106,344,339	10,004,362	85,616,031	95,620,393
Beneficial interest in charitable trusts <i>(note 6)</i>	–	1,087,430	1,087,430	–	1,311,170	1,311,170
Real estate investments, at cost <i>(note 18)</i>	4,837,854	–	4,837,854	4,837,854	–	4,837,854
Property and equipment <i>(note 7)</i>	44,890,870	–	44,890,870	45,222,074	–	45,222,074
Museum collections <i>(note 8)</i>						
Total assets	\$ 68,477,515	121,780,844	190,258,359	67,940,696	102,114,528	170,055,224
Liabilities:						
Accounts payable and accrued expenses	991,607	217,400	1,209,007	769,767	98,085	867,852
Accrued payroll and related expenses	1,047,243	–	1,047,243	1,109,496	–	1,109,496
Deferred revenues <i>(note 9)</i>	1,545,878	–	1,545,878	1,141,976	–	1,141,976
Note payable <i>(note 10)</i>	–	–	–	1,835,900	–	1,835,900
Other liabilities	–	181,115	181,115	–	175,933	175,933
Due to (from) other funds	(1,423,590)	1,423,590	–	(907,874)	907,874	–
Total liabilities	2,161,138	1,822,105	3,983,243	3,949,265	1,181,892	5,131,157
Net assets:						
Without donor restrictions:						
Available for programs and general operations	9,159,899	–	9,159,899	4,193,897	–	4,193,897
Designated by the Board of Trustees <i>(note 11)</i>	7,427,754	–	7,427,754	9,737,606	–	9,737,606
Net investment in capital assets and real estate investments	49,728,724	–	49,728,724	50,059,928	–	50,059,928
Total net assets without donor restrictions	66,316,377	–	66,316,377	63,991,431	–	63,991,431
With donor restrictions <i>(note 12)</i>	–	119,958,739	119,958,739	–	100,932,636	100,932,636
Total net assets	66,316,377	119,958,739	186,275,116	63,991,431	100,932,636	164,924,067
Commitments and contingencies <i>(notes 3, 5, 17, 18, 19, 20, and 22)</i>						
Total liabilities and net assets	\$ 68,477,515	121,780,844	190,258,359	67,940,696	102,114,528	170,055,224

See accompanying notes to consolidated financial statements.

PORTLAND ART MUSEUM
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:						
Contributions and grants	\$ 5,133,772	32,124,596	37,258,368	3,414,183	11,312,836	14,727,019
Memberships	3,219,365	-	3,219,365	2,831,092	-	2,831,092
In-kind contributions (note 14)	32,014	-	32,014	8,426	-	8,426
Financial support received from volunteer groups	79,506	-	79,506	134,825	-	134,825
Admissions	3,698,137	-	3,698,137	670,992	-	670,992
Museum store sales	1,710,289	-	1,710,289	396,755	-	396,755
Rental income	779,345	-	779,345	357,770	-	357,770
Tuition and fees	27,856	-	27,856	34,642	-	34,642
Total investment return (note 5)	(650,177)	(6,922,598)	(7,572,775)	2,022,458	12,160,211	14,182,669
Other revenues and gains (note 15)	2,276,883	88	2,276,971	2,179,827	-	2,179,827
Total revenues and gains	16,306,990	25,202,086	41,509,076	12,050,970	23,473,047	35,524,017
Net assets released from restrictions (note 12)	6,175,983	(6,175,983)	-	5,613,183	(5,613,183)	-
Total revenues, gains, and other support	22,482,973	19,026,103	41,509,076	17,664,153	17,859,864	35,524,017
Expenses (note 16):						
Program activities:						
Acquisition of art (note 8)	369,733	-	369,733	164,749	-	164,749
Museum programs	13,094,198	-	13,094,198	10,189,377	-	10,189,377
PAM CUT programs	1,096,000	-	1,096,000	1,049,159	-	1,049,159
Total program activities	14,559,931	-	14,559,931	11,403,285	-	11,403,285
Supporting activities:						
Management and general	2,615,277	-	2,615,277	2,027,990	-	2,027,990
Fundraising, membership, and development	2,982,819	-	2,982,819	2,378,712	-	2,378,712
Total supporting activities	5,598,096	-	5,598,096	4,406,702	-	4,406,702
Total expenses	20,158,027	-	20,158,027	15,809,987	-	15,809,987
Increase in net assets	2,324,946	19,026,103	21,351,049	1,854,166	17,859,864	19,714,030
Net assets at beginning of year	63,991,431	100,932,636	164,924,067	62,137,265	83,072,772	145,210,037
Net assets at end of year	\$ 66,316,377	119,958,739	186,275,116	63,991,431	100,932,636	164,924,067

See accompanying notes to consolidated financial statements.

PORTLAND ART MUSEUM

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 9,561,765	9,036,382
Cash received from admissions and service recipients	5,561,071	1,237,518
Interest and dividends received	1,868,365	1,204,324
Other receipts	1,248,272	1,394,242
Cash paid to employees and suppliers	(16,354,166)	(11,099,788)
Net cash provided by operating activities	1,885,307	1,772,678
Cash flows from investing activities:		
Proceeds from the sale of investments	16,262,676	18,926,039
Purchases of investments	(34,048,778)	(28,093,721)
Reinvestment of investment income	(1,833,023)	(1,171,911)
Architectural fees and other capital campaign costs	(881,217)	(2,602,669)
Acquisition of property and equipment	(1,454,919)	(157,673)
Acquisition of works of art (<i>note 8</i>)	(369,733)	(164,749)
Net cash used in investing activities	(22,324,994)	(13,264,684)
Cash flows from financing activities:		
Proceeds from the issuance of note payable (<i>note 10</i>)	—	1,835,900
Proceeds from contributions restricted for long-term investment	5,207,708	2,922,423
Proceeds from contributions restricted for capital investment	16,973,995	8,323,961
Net cash provided by financing activities	22,181,703	13,082,284
Net increase in cash and cash equivalents	1,742,016	1,590,278
Cash and cash equivalents at beginning of year	6,675,105	5,084,827
Cash and cash equivalents at end of year	\$ 8,417,121	6,675,105

Supplemental schedule of noncash financing activities:

Paycheck Protection Program loan forgiveness (<i>note 10</i>)	\$ 1,835,900	1,835,900
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See accompanying notes to consolidated financial statements.

PORTLAND ART MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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 Center for an Untold Tomorrow (“PAM CUT”), formerly known as the Northwest 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.

Principles of Consolidation – The accompanying financial statements include all accounts and activities of the Museum and R2464 Lots, LLC, a single-member limited liability company established in May 2019, for which the Museum serves as the sole member. All significant intra-organizational investments, accounts, and transactions between these entities have been eliminated.

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). Donors of these assets also specify whether the Museum may 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 or capital assets 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 consolidated 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 consolidated 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 \$5,000 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 donor 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 consolidated 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.

Revenue Recognition – With regard to revenues from grants and contracts, the Museum evaluates whether each transfer of assets is (1) an exchange (reciprocal) transaction in which a resource provider receives commensurate value in return for the assets transferred, or (2) a nonreciprocal transfer (a contribution or a grant), where no value is exchanged.

- *Exchange Transactions* – If the transfer of assets is determined to be an exchange transaction, the Museum recognizes revenue when or as it satisfies the required performance obligations and transfers the promised good or service to a customer, and when the customer obtains control of that good or service.
- *Contributions and Grants* – If the transfer of assets is determined to be a contribution, the Museum evaluates whether the contribution is conditional based upon whether the agreement includes both (1) a barrier that must be overcome to be entitled to the funds and (2) either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets.
- *Governmental Support* – Activities funded by governments are often carried out for the benefit of the general public, rather than to obtain goods or services for the government’s own use or proprietary benefit. Accordingly, if the primary beneficiary of the activity is the general public, rather than the government itself, the transaction is treated as nonreciprocal (i.e., a contribution).

In accordance with the above principles, the Museum has adopted the following additional specific revenue recognition policies:

- 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, tuition and fees, rental income, and museum store sales are recognized at the time the services are provided or goods delivered. As a result, any revenues associated with advance ticket sales, tuition and fees, and rent deposits received for future fiscal years are reported as deferred revenues until earned.
- The Museum offers memberships in a variety of categories for typically a one-year term. Membership proceeds are allocated between a contribution portion recognized immediately and an exchange portion recognized ratably over the membership term.

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.

Contributions and grants receivable are reported net of an allowance for estimated uncollectible promises. Promises to give are written off when deemed uncollectible.

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 consolidated 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.

Advertising and Marketing Expenses – Advertising and marketing costs are charged as expenses as they are incurred. Advertising and marketing expenses totaled \$293,298 and \$150,443 for the years ended June 30, 2022 and 2021, 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 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, 2022 and 2021, the Museum held \$5,919,792 and \$5,006,925, 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.

R2464 Lots, LLC, as a single-member, limited liability company controlled by the Museum, is considered a disregarded entity for tax purposes.

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 October 18, 2022, 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, 2022 and 2021 are summarized as follows:

	2022	2021
Donor-restricted endowments	\$ 2,585,000	3,625,000
Capital campaign	19,490,493	8,135,250
Museum operations and programs	1,435,461	767,260
	<u>23,510,954</u>	<u>12,527,510</u>
Less discount ¹	(1,205,947)	(139,800)
Less allowance for doubtful collection	(2,351,095)	(1,252,751)
	<u>\$ 19,953,912</u>	<u>11,134,959</u>

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 3.45% in 2022, and 0.86% in 2021.

Amounts due at June 30, 2022 and 2021 are as follows:

	2022	2021
<i>Unconditional promises expected to be collected in:</i>		
Less than one year	\$ 7,949,286	3,862,580
One year to five years	14,461,084	8,314,930
Greater than five years	1,100,584	350,000
	<u>\$ 23,510,954</u>	<u>12,527,510</u>

Conditional Capital Campaign Contributions

At June 30, 2022, the Museum had received an additional \$6,250,000 in conditional capital campaign contributions, which are not yet recorded in the financial statements. Of this total, \$750,000 were conditioned upon raising additional matching funds, \$1,500,000 upon achieving certain construction benchmarks, \$1,000,000 upon legislative approval of the funds, and \$3,000,000 as “top off” gifts conditioned upon raising sufficient funds for the project.

4. Inventories and Prepayments

At June 30, 2022 and 2021, the following summarizes the Museum’s inventories and prepayments:

	2022	2021
Museum store inventory	\$ 252,333	300,562
Prepaid exhibition expenses	156,096	515,394
Other prepayments	93,075	132,193
	<u>\$ 501,504</u>	<u>948,149</u>

5. Cash, Investments, and Investment Return

Cash and investments as of June 30, 2022 and 2021 comprised the following:

	2022	2021
Equity mutual funds	\$ 39,571,447	38,889,414
Fixed income mutual funds	7,856,116	10,378,453
Corporate bonds and notes	42,468,317	30,080,744
Real return mutual funds	5,639,712	3,887,297
Balanced index mutual funds	102,889	108,907
Interests in private equity partnerships	14,182,074	16,074,015
	<u>109,820,555</u>	<u>99,418,830</u>
Money market funds and other cash and cash equivalents	8,417,121	6,675,105
	<u>\$ 118,237,676</u>	<u>106,093,935</u>

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

	2022	2021
Cash and cash equivalents	\$ 8,417,121	6,675,105
Short-term investments	3,476,216	3,798,437
Investments	106,344,339	95,620,393
	<u>\$ 118,237,676</u>	<u>106,093,935</u>

At June 30, 2022 and 2021, cash and investments were held for the following purposes:

	2022	2021
Operations	\$ 15,809,569	13,302,318
Capital campaign	41,276,158	26,333,938
Endowment funds ¹	61,151,949	66,457,679
	<u>\$ 118,237,676</u>	<u>106,093,935</u>

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

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 val-

ues of its alternative investments represent reasonable estimates of fair values at June 30, 2022 and 2021. 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, 2022 and 2021, such commitments totaled \$483,765 and \$1,090,782, respectively. See note 24 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, 2022 is summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Interest and dividend income, net	\$ 169,329	1,699,036	1,868,365
Net decline in the fair value of investments	(819,506)	(8,397,894)	(9,217,400)
Net change in beneficial interest in charitable trusts (note 6)	-	(223,740)	(223,740)
Total investment return	<u>\$ (650,177)</u>	<u>(6,922,598)</u>	<u>(7,572,775)</u>

Conditional

Total investment return for the year ended June 30, 2021 is summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Interest and dividend income, net	\$ 125,337	1,078,987	1,204,324
Net appreciation in the fair value of investments	1,897,121	10,855,494	12,752,615
Net change in beneficial interest in charitable trusts (note 6)	–	225,730	225,730
Total investment return	\$ 2,022,458	12,160,211	14,182,669

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.

A summary of the beneficial interest in charitable trusts at June 30, 2022 and 2021 is as follows:

	2022	2021
Charitable remainder trusts	\$ 85,667	95,971
Perpetual trusts	1,001,763	1,215,199
	\$ 1,087,430	1,311,170

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, 2022 and 2021 are summarized as follows:

	2022	2021
Fair value at beginning of year	\$ 1,311,170	1,085,440
Increase (decline) in fair value ¹	(223,740)	225,730
Fair value at end of year	\$ 1,087,430	1,311,170

¹ The increase/(decline) in fair value reported is net of distributions of \$49,250 and \$49,250 received from these trusts during the years ended June 30, 2022 and 2021, respectively.

7. Property and Equipment

A summary of property and equipment at June 30, 2022 and 2021 is as follows:

	2022	2021
Land and land improvements	\$ 3,565,225	3,565,225
Main building	9,477,607	9,477,607
Mark building	42,415,682	42,415,682
Hoffman wing	18,892,260	18,892,260
Furniture and equipment	8,925,817	8,390,013
Leasehold improvements	574,360	574,360
Construction-in-progress	928,455	9,340
	<u>84,779,406</u>	<u>83,324,487</u>
Less accumulated depreciation and amortization	(39,888,536)	(38,102,413)
	<u>\$ 44,890,870</u>	<u>45,222,074</u>

8. Museum Collections

During the years ended June 30, 2022 and 2021, the Museum acquired works of art for a total cost of \$369,733 and \$164,749, respectively. During these same periods, the Museum accepted donations of art with an estimated value of \$1,662,098 and \$2,118,787, respectively.

During the year ended June 30, 2022 and the year ended June 30, 2021, no works of art were deaccessioned.

9. Deferred Revenues

Deferred revenues were the result of the following activities as of June 30, 2022 and 2021:

	2022	2021
Film Center tuition	\$ 18,850	4,119
Rental events	180,083	168,527
Membership fees	1,277,740	966,880
Other	69,205	2,450
	<u>\$ 1,545,878</u>	<u>1,141,976</u>

10. Note Payable

On April 16, 2020, the Museum was granted an unsecured loan from a commercial bank in the amount of \$1,835,900, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

On February 3, 2021, the Museum obtained a Second PPP loan under the Consolidated Appropriations Act 2021 for the same amount and on substantially the same terms.

The bank’s loans are guaranteed by the U.S. Small Business Administration (“SBA”), and are designed to provide a direct incentive for organizations and other small businesses and nonprofits to keep their employees on payroll during the COVID-19 pandemic. The SBA has promised to forgive the loans if all employees are kept on the payroll during the “covered period” (either 8 weeks or 24 weeks from the loan disbursement date) and if the funds are used for payroll, rent, mortgage interest, and/or utilities, and certain other conditions are met.

In accordance with the provisions of the PPP and SBA’s promise of forgiveness, the Museum used all of the loan amounts for qualifying expenses. Full forgiveness was obtained for the first loan on February 22, 2021 and second loan on December 2, 2021 (see note 15).

11. Net Assets Designated by the Board of Trustees

At June 30, 2022 and 2021, \$7,427,754 and \$9,737,606, respectively, of the Museum’s net assets without donor-imposed restrictions had been designated by the Board of Trustees for the following purposes:

	2022	2021
Quasi-endowment	\$ 6,279,754	9,406,606
Deferred maintenance	881,000	—
Specific operating expenses	267,000	331,000
	<u>\$ 7,427,754</u>	<u>9,737,606</u>

12. Net Assets with Donor Restrictions

The following summarizes the Museum's net assets with donor-imposed restrictions as of June 30, 2022 and 2021:

	2022	2021
<i>Expendable net assets restricted for the following purposes:</i>		
Acquisition of works of art	\$ 1,086,856	825,457
Specific program expenses	3,950,166	4,901,484
Capital campaign	57,481,324	33,458,249
	62,518,346	39,185,190
<i>Expendable net assets unrestricted as to purpose, but restricted as to time</i>		
	371,214	395,927
Total expendable net assets	62,889,560	39,581,117
<i>Endowment restricted for the following purposes:</i>		
Funded staff positions	15,414,756	14,853,898
Access and education	9,204,732	11,648,871
Museum operations	10,211,108	11,097,243
Exhibitions	8,149,103	6,985,147
Acquisition of works of art	3,028,614	2,200,693
	46,008,313	46,785,852
<i>Endowment unrestricted as to purpose</i>		
	10,059,103	13,350,468
Total endowment (note 13)	56,067,416	60,136,320
<i>Other donor-restricted net assets:</i>		
Beneficial interest in perpetual trusts (note 6)	1,001,763	1,215,199
Total net assets with donor restrictions	\$ 119,958,739	100,932,636

Net Assets Released from Donor Restrictions

For the years ended June 30, 2022 and 2021, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2022	2021
Acquisition of works of art	\$ 219,341	157,783
Capital campaign	990,609	2,569,194
Other operational support	4,966,033	2,886,206
	\$ 6,175,983	5,613,183

13. 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, 2022:

	With donor restrictions			Total	Without donor restrictions	Total endowment
	Underwater endowment	Accumulated endowment return	Endowment principal			
Endowment net assets at beginning of year	\$ (101,156)	13,008,378	47,229,098	60,136,320	9,737,606	69,873,926
Contributions and bequests	—	—	4,091,420	4,091,420	2,575	4,093,995
Investment return	—	(4,079,881)	—	(4,079,881)	(649,196)	(4,729,077)
Net change in cumulative endowment losses	(1,342,551)	—	—	(1,342,551)	—	(1,342,551)
Appropriation of endowment assets for expenditure	—	(2,737,892)	—	(2,737,892)	(1,663,231)	(4,401,123)
Endowment net assets at end of year	\$ (1,443,707)	6,190,605	51,320,518	56,067,416	7,427,754	63,495,170

The following summarizes the Museum's endowment-related activities for the year ended June 30, 2021:

	With donor restrictions			Total	Without donor restrictions	Total endowment
	Underwater endowment	Accumulated endowment return	Endowment principal			
Endowment net assets at beginning of year	\$ (848,651)	4,438,022	45,411,123	49,000,494	8,185,051	57,185,545
Contributions and bequests	—	—	1,817,975	1,817,975	41,462	1,859,437
Investment return	—	10,975,242	—	10,975,242	2,025,432	13,000,674
Net change in cumulative endowment losses	747,495	—	—	747,495	—	747,495
Appropriation of endowment assets for expenditure	—	(2,404,886)	—	(2,404,886)	(514,339)	(2,919,225)
Endowment net assets at end of year	\$ (101,156)	13,008,378	47,229,098	60,136,320	9,737,606	69,873,926

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2022 and 2021:

	2022	2021
Appropriation of 5.0% spending rate to fund operations	\$ (3,143,382)	(2,820,408)
Utilization of Board-designated endowment to acquire capital assets	(1,257,741)	(98,817)
Total appropriation	\$ (4,401,123)	(2,919,225)

Continued

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, 2022, the Museum held endowment funds with original gift values of \$12,687,239, fair value of \$11,243,532, and deficiencies of \$1,443,707.

At June 30, 2021, the Museum held endowment funds with original gift values of \$3,942,490, fair value of \$3,841,334, and deficiencies of \$101,156.

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, the Museum’s policies limit the appropriation of endowment assets for expenditure to 5.0% 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.

14. 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, 2022 and 2021:

		2022	2021
Museum programs	\$	32,014	8,426
	\$	32,014	8,426

15. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2022 and 2021:

		2022	2021
Rental sales gallery	\$	337,778	271,715
Exhibition fees		–	47,500
Insurance proceeds		63,818	–
Other		39,475	24,712
PPP loan forgiveness (see note 10)		1,835,900	1,835,900
	\$	2,276,971	2,179,827

On September 3, 2019, the decorative ceiling of the Kridel Grand Ballroom collapsed, resulting in significant property damage, as well as the inability of the Museum to continue using the Ballroom for scheduled events. Repair costs incurred during the years ended June 30, 2022 and 2021 to restore the ceiling totaled \$0 and \$257,564 respectively, and were fully covered by insurance proceeds.

16. 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, 2022 are summarized as follows:

	Program activities				Supporting activities			Total
	Acquisition of art	Museum programs	PAM CUT	Sub-total	Management and general	Fund-raising, membership, and development	Sub-total	
Salaries and related costs	\$ —	5,008,332	509,365	5,517,697	1,598,388	1,720,754	3,319,142	8,836,839
Services and professional fees	—	1,128,074	104,677	1,232,751	643,937	875,232	1,519,169	2,751,920
Exhibition installation	—	1,903,542	36,099	1,939,641	—	—	—	1,939,641
Acquisition of art	369,733	—	—	369,733	—	—	—	369,733
Occupancy	—	700,591	103,229	803,820	213,923	7,641	221,564	1,025,384
Merchandise	—	853,078	—	853,078	—	—	—	853,078
Travel and events	—	261,276	84,896	346,172	57,541	49,289	106,830	453,002
Printing, publications and advertising	—	349,358	40,757	390,115	14,123	103,738	117,861	507,976
Equipment and supplies	—	465,141	44,184	509,325	119,818	55,654	175,472	684,797
Merchant and bank fees	—	218,427	19,412	237,839	45,768	91,220	136,988	374,827
Depreciation and amortization	—	1,264,550	92,621	1,357,171	407,919	21,033	428,952	1,786,123
Other	—	234,862	60,760	295,622	220,827	58,258	279,085	574,707
	369,733	12,387,231	1,096,000	13,852,964	3,322,244	2,982,819	6,305,063	20,158,027
Allocation of exhibitions' overhead costs	—	706,967	—	706,967	(706,967)	—	(706,967)	—
	\$ 369,733	13,094,198	1,096,000	14,559,931	2,615,277	2,982,819	5,598,096	20,158,027

Costs by their natural classification for the year ended June 30, 2021 are summarized as follows:

	Program activities				Supporting activities			Total
	Acquisition of art	Museum programs	PAM CUT	Sub-total	Management and general	Fund-raising, membership, and development	Sub-total	
Salaries and related costs	\$ —	4,149,648	423,331	4,572,979	1,211,703	1,241,976	2,453,679	7,026,658
Services and professional fees	—	2,336,462	177,869	2,514,331	458,792	917,313	1,376,105	3,890,436
Exhibition installation	—	741,538	55,340	796,878	—	—	—	796,878
Acquisition of art	164,749	—	—	164,749	—	—	—	164,749
Occupancy	—	668,058	145,555	813,613	131,983	6,637	138,620	952,233
Merchandise	—	186,232	—	186,232	—	—	—	186,232
Travel and events	—	52,539	15,078	67,617	25,997	10,850	36,847	104,464
Printing, publications and advertising	—	107,424	64,477	171,901	10,970	39,797	50,767	222,668
Equipment and supplies	—	232,805	22,478	255,283	49,718	33,441	83,159	338,442
Merchant and bank fees	—	72,730	4,962	77,692	40,034	73,090	113,124	190,816
Depreciation and amortization	—	1,295,224	94,868	1,390,092	417,815	21,543	439,358	1,829,450
Other	—	111,082	45,201	156,283	(83,387)	34,065	(49,322)	106,961
	164,749	9,953,742	1,049,159	11,167,650	2,263,625	2,378,712	4,642,337	15,809,987
Allocation of exhibitions' overhead costs	—	235,635	—	235,635	(235,635)	—	(235,635)	—
	\$ 164,749	10,189,377	1,049,159	11,403,285	2,027,990	2,378,712	4,406,702	15,809,987

Exhibition-related costs in the preceding tables totaled \$3,298,563 and \$1,096,529 for the years ended June 30, 2022 and 2021, respectively. Exhibition-related costs vary significantly from year to year, depending on the number and size of exhibitions installed.

17. Retirement Plan

The Museum sponsors a defined contribution retirement savings plan established under Section 401(k) of the Internal Revenue Code (the "Plan"). Employees may make voluntary contributions to the plan on a pre-tax basis up to the maximum amount allowed by law. Under the Plan, the Museum may make discretionary matching contributions up to a predetermined maximum.

For the year ended June 30, 2021, the Museum suspended matching contributions and reinstated them on July 1, 2021. For the year ended June 30, 2022, the Museum matched participating employees' contributions to the Plan, up to 4% of total annual compensation. Total Museum contributions to the Plan for the year ended June 30, 2022 amounted to \$101,415.

18. 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, 2022 and 2021. Rent expense associated with this arrangement totaled \$107,839 for each of the years ended June 30, 2022 and 2021.

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.

19. Other Operating Leases

The Museum leases various office and program equipment and storage space under non-cancelable operating leases expiring at various dates through December of 2024. In addition, the Museum signed a lease in April 2022 for a theater space that is currently under renovation. Rent will become due on this space once the tenant improvements are completed and will run for a minimum of 45 months. At June 30, 2022, the approximate future minimum rental commitments under these leases are as follows:

<i>Years ending June 30,</i>	
2023	\$ 161,081
2024	161,595
2025	163,813
2026	163,215
2027	142,019
	\$ 791,723

Rent expense associated with these lease arrangements totaled \$256,790 and \$215,544 for the years ended June 30, 2022 and 2021, respectively.

In addition, the Museum subleases a parking lot under a single-year lease to an unrelated party. Annual rental revenues totaled \$296,579 and \$340,327 for the years ended June 30, 2022 and 2021, respectively.

20. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately \$244,105 and \$544,192 at June 30, 2022 and 2021, respectively. In addition, the Museum has outstanding commitments related to the capital campaign totaling \$0 and \$406,066 at June 30, 2022 and 2021, respectively.

21. 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, 2022 and 2021:

	2022	2021
Total financial assets available to fund general operations at June 30	\$ 34,117,981	22,650,390
Less financial assets not available within one year	(19,997,957)	(11,307,268)
	14,120,024	11,343,122
<i>Plus other funds subject to appropriation or approved for expenditure in the next fiscal year:</i>		
Endowment appropriations for operations	1,034,149	1,026,292
Appropriations of Board-designated funds	1,148,000	331,000
Estimated trust distributions	49,250	49,250
Total financial assets available within one year	\$ 16,351,423	12,749,664

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 \$6,279,754 at June 30, 2022 (\$9,406,606 in 2021). 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 24 for additional disclosures about the Museum's investments).

22. Subsequent Events and Uncertainty Related to the Coronavirus Pandemic

As a result of the COVID-19 pandemic, the Museum has been required to operate under strict social distancing mandates by Oregon's Governor, limiting its ability to open the Museum to the public or to operate at full capacity when allowed to open. Consequently, the Museum has experienced significant declines in multiple revenue sources, and management projects that these declines will continue well into 2023.

Management has adopted a plan to address these financial challenges, and continues to take measures to adapt the delivery of its programming in order to keep its employees and constituents safe, as well as facilitate the ongoing availability of its services and execution of its mission.

23. 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 review and approval. In April 2022 a lease was signed for a theater space in a building in which two trustees who are family members have a controlling interest. After taking independent professional advice and concluding that the lease terms were at a fair market rent, the lease was approved by the Executive Committee of the Board. No rent was paid under this lease for the years ended June 30, 2022 and 2021. The amount of future lease commitments is included among the disclosures in note 19.

24. Fair Value Measurements

Included in the accompanying consolidated 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, 2022, 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):			
Equity mutual funds:			
Large-cap domestic	\$ 14,152,968	–	14,152,968
Small and mid-cap domestic	7,606,380	–	7,606,380
Large-cap international	15,615,589	–	15,615,589
Small-cap international	2,196,510	–	2,196,510
Total equity mutual funds	39,571,447	–	39,571,447
Fixed income mutual funds	7,856,116	–	7,856,116
Corporate bonds and notes	42,468,317	–	42,468,317
Real return mutual funds	5,639,712	–	5,639,712
Balanced index mutual funds	102,889	–	102,889
Total investments, measured at fair value	95,638,481	–	95,638,481
Interests in private equity partnerships, measured at net asset value			14,182,074
Total investments (see note 5)			109,820,555
Contributions receivable (see note 3)		19,953,912	19,953,912
Beneficial interest in charitable trusts (see note 6)		1,087,430	1,087,430

Investments measured at fair value using net asset value as a practical expedient are as follows at June 30, 2022:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 5,414,643	none	quarterly	70 days
Private equity funds [B]	4,887,863	672,990	not allowed	n/a
Real estate fund [C]	3,879,568	none	quarterly	60 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.

Continued

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2022 are as follows:

	Contributions receivable	Beneficial interest in charitable trusts
Fair value at beginning of year	\$ 11,134,959	1,311,170
Receipt of new contributions receivable	28,940,022	–
Collection of contributions receivable	(17,956,578)	–
Changes in the allowance for doubtful collection of receivables	(1,098,344)	–
Changes in the unamortized discount associated with contributions receivable	(1,066,147)	–
Change in beneficial interests in charitable trusts –	–	(223,740)
Net changes	8,818,953	(223,740)
Fair value at end of year	\$ 19,953,912	1,087,430
	[A]	[B]

[A] The fair value of contributions receivable is based on the expected payment date, using a current discount rate of 3.45%. 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, 2021, 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 5</i>):			
<i>Equity mutual funds:</i>			
Large-cap domestic	\$ 14,569,655	–	14,569,655
Small and mid-cap domestic	7,870,565	–	7,870,565
Large-cap international	14,082,235	–	14,082,235
Small-cap international	2,366,959	–	2,366,959
Total equity mutual funds	38,889,414	–	38,889,414
Fixed income mutual funds	10,378,453	–	10,378,453
Corporate bonds and notes	30,080,744	–	30,080,744
Real return mutual funds	3,887,297	–	3,887,297
Balanced index mutual funds	108,907	–	108,907
Total investments, measured at fair value	83,344,815	–	83,344,815
Interests in private equity partnerships, measured at net asset value			16,074,015
Total investments (<i>see note 5</i>)			99,418,830
Contributions receivable (<i>see note 3</i>)		11,134,959	11,134,959
Beneficial interest in charitable trusts (<i>see note 6</i>)		1,311,170	1,311,170

Investments measured at fair value using net asset value as a practical expedient are as follows at June 30, 2021:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 7,460,869	none	quarterly	70 days
Private equity funds [B]	4,597,386	1,090,782	not allowed	n/a
Real estate fund [C]	4,015,760	none	quarterly	60 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.

The changes in valuation of Level 3 assets and liabilities for the year ended June 30, 2021 are as follows:

	Contributions receivable	Beneficial interest in charitable trusts
Fair value at beginning of year	\$ 13,647,552	1,085,440
Receipt of new contributions receivable	10,320,557	—
Collection of contributions receivable	(13,432,972)	—
Changes in the allowance for doubtful collection of receivables	226,055	—
Changes in the unamortized discount associated with contributions receivable	373,767	—
Change in beneficial interests in charitable trusts	—	225,730
Net changes	(2,512,593)	225,730
Fair value at end of year	\$ 11,134,959	1,311,170
	[A]	[B]

[A] The fair value of contributions receivable is based on the expected payment date, using a current discount rate of 0.86%. 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.

25. Statements of Cash Flows Reconciliation

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

	2022	2021
Increase in net assets	\$ 21,351,049	19,714,030
<i>Adjustments to reconcile the increase (decrease) in net assets to the net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,786,123	1,829,450
Net decline (appreciation) in the fair value of investments (note 5)	9,217,400	(12,752,615)
Acquisition of works of art (note 8)	369,733	164,749
Proceeds from contributions restricted for long-term investment	(5,207,708)	(2,922,423)
Proceeds from contributions restricted for capital acquisition	(16,973,995)	(8,323,961)
Architectural fees and other capital campaign costs	881,217	2,602,669
Net change in beneficial interest in charitable trusts (note 6)	223,740	(225,730)
Paycheck Protection Program loan forgiveness (note 10)	(1,835,900)	(1,835,900)
<i>Net changes in:</i>		
Accounts receivable	(251,257)	898,507
Contributions receivable	(8,818,953)	2,512,593
Inventories and prepayments	446,645	(73,697)
Other assets	9,227	(42,492)
Accounts payable and accrued expenses	341,155	127,999
Accrued payroll and related expenses	(62,253)	93,095
Deferred revenues	403,902	(828)
Other liabilities	5,182	7,232
Total adjustments	(19,465,742)	(17,941,352)
Net cash provided by (used in) operating activities	\$ 1,885,307	1,772,678

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PORTLAND ART MUSEUM

SCHEDULE OF OPERATING REVENUES AND EXPENSES
OF THE CENTER FOR AN UNTOLD TOMORROW

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Operating revenues, gains, and other support:		
Contributions and grants	\$ 358,968	466,530
Memberships	360	23,432
In-kind contributions	-	-
Admissions	197,245	230,856
Tuition and fees	27,856	34,642
Other revenues and gains	29,415	9,930
Total operating revenues and gains	613,844	765,390
Net transfers from Board-designated reserves	44,604	45,635
Total operating revenues, gains, and other support	658,448	811,025
Direct expenses:		
Program activities:		
Classes	140,113	88,019
Exhibitions	341,173	469,529
Artist services	107,527	11,026
Total program activities	588,813	568,574
Supporting activities:		
Management and general	388,288	259,866
Total supporting activities	388,288	259,866
Total direct expenses	977,101	828,440
Net operating loss	\$ (318,653)	(17,415)

See accompanying notes to schedule of operating revenues and expenses of the Center for an Untold Tomorrow.

PORTLAND ART MUSEUM

NOTES TO SCHEDULE OF OPERATING REVENUES AND
EXPENSES OF THE CENTER FOR AN UNTOLD TOMORROW

YEARS ENDED JUNE 30, 2022 AND 2021

1. Basis of Accounting

The Portland Art Museum consists of two major programmatic components, the Portland Art Museum itself and the Center for an Untold Tomorrow (the “PAM CUT”), which joined the Museum in 1979. The schedule of operating revenues and expenses of the PAM CUT 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 consolidated statements of activities of the Portland Art Museum for the years ended June 30, 2022 and 2021, as follows:

	2022	2021
Total direct expenses, as reported in the accompanying schedule of operating revenues and expenses of PAM CUT	\$ 977,101	828,440
<i>Reconciling items:</i>		
Less management and general expenses	(388,288)	(259,866)
Plus shared institutional costs	507,187	480,585
Total reconciling items	118,899	220,719
PAM CUT program expenses, as reported in the consolidated statements of activities	\$ 1,096,000	1,049,159

PORTLAND ART MUSEUM

GOVERNING BOARD AND MANAGEMENT

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Winkler Development
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Jin Park
Treasurer

Mary Lee Boklund
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² Finance committee

³ Audit committee

⁴ Investment committee

⁵ Governance committee

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Laura Bartroff
Director of Communications

Celeste Brannon
Director of Human Resources

Karie Burch
Director of Development

Amy Dotson
Director of PAM CUT

Gareth A. Nevitt
Chief Financial Officer

Stephanie Parrish
*Director of Learning and
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Donald Urquhart
*Director of Collections
and Exhibitions*

PORTLAND ART MUSEUM
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