



**Gary McGee & Co. LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Portland Art Museum**

Consolidated Financial Statements and Other  
Information as of and for the Years Ended June 30, 2023  
and 2022, and Reports of Independent Accountants

PORTLAND ART MUSEUM

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# Report of the Treasurer

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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:*

*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, 2023 and 2022, 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, 2023 and 2022, 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.

*Emphasis of Matter*

As discussed in note 3 to the accompanying consolidated financial statements, during the year ended June 30, 2023, the Museum adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

*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 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 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 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 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 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.



November 6, 2023

PORTLAND ART MUSEUM

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
<b>Assets:</b>						
Cash and cash equivalents <i>(note 6)</i>	\$ 3,215,263	957,240	4,172,503	8,417,121	–	8,417,121
Short-term investments <i>(note 6)</i>	–	2,617,015	2,617,015	495,845	2,980,371	3,476,216
Accounts receivable	710,332	–	710,332	282,450	–	282,450
Contributions receivable <i>(note 4)</i>	428,419	20,616,125	21,044,544	933,301	19,020,611	19,953,912
Inventories and prepayments <i>(note 5)</i>	809,410	–	809,410	494,004	7,500	501,504
Other assets	–	471,685	471,685	–	466,663	466,663
Investments <i>(note 6)</i>	7,056,779	104,364,559	111,421,338	8,126,070	98,218,269	106,344,339
Beneficial interest in charitable trusts <i>(note 7)</i>	–	1,134,957	1,134,957	–	1,087,430	1,087,430
Real estate investments, at cost <i>(note 18)</i>	4,837,854	–	4,837,854	4,837,854	–	4,837,854
Right-of-use assets - operating leases <i>(note 19)</i>	5,667,243	–	5,667,243	–	–	–
Property and equipment <i>(note 8)</i>	44,770,511	13,479,428	58,249,939	44,890,870	–	44,890,870
Museum collections <i>(note 9)</i>						
<b>Total assets</b>	<b>\$ 67,495,811</b>	<b>143,641,009</b>	<b>211,136,820</b>	<b>68,477,515</b>	<b>121,780,844</b>	<b>190,258,359</b>
<b>Liabilities:</b>						
Accounts payable and accrued expenses	1,201,152	2,388,660	3,589,812	991,607	217,400	1,209,007
Accrued payroll and related expenses	1,216,496	–	1,216,496	1,047,243	–	1,047,243
Deferred revenues <i>(note 10)</i>	1,364,005	–	1,364,005	1,545,878	–	1,545,878
Lease obligations - operating leases <i>(note 19)</i>	5,732,273	–	5,732,273	–	–	–
Other liabilities	–	159,273	159,273	–	181,115	181,115
Due to (from) other funds	(5,746,411)	5,746,411	–	(1,423,590)	1,423,590	–
<b>Total liabilities</b>	<b>3,767,515</b>	<b>8,294,344</b>	<b>12,061,859</b>	<b>2,161,138</b>	<b>1,822,105</b>	<b>3,983,243</b>
<b>Net assets:</b>						
Without donor restrictions:						
Available for programs and general operations	5,007,018	–	5,007,018	9,159,899	–	9,159,899
Designated by the Board of Trustees <i>(note 11)</i>	9,112,913	–	9,112,913	7,427,754	–	7,427,754
Net investment in capital assets and real estate investments	49,608,365	–	49,608,365	49,728,724	–	49,728,724
<b>Total net assets without donor restrictions</b>	<b>63,728,296</b>	<b>–</b>	<b>63,728,296</b>	<b>66,316,377</b>	<b>–</b>	<b>66,316,377</b>
With donor restrictions <i>(note 12)</i>	–	135,346,665	135,346,665	–	119,958,739	119,958,739
<b>Total net assets</b>	<b>63,728,296</b>	<b>135,346,665</b>	<b>199,074,961</b>	<b>66,316,377</b>	<b>119,958,739</b>	<b>186,275,116</b>
<b>Commitments and contingencies <i>(notes 4, 17, 18, 20, and 23)</i></b>						
<b>Total liabilities and net assets</b>	<b>\$ 67,495,811</b>	<b>143,641,009</b>	<b>211,136,820</b>	<b>68,477,515</b>	<b>121,780,844</b>	<b>190,258,359</b>

See accompanying notes to consolidated financial statements.

PORTLAND ART MUSEUM  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:						
Contributions and grants	\$ 3,372,767	15,672,424	19,045,191	5,133,772	32,124,596	37,258,368
Memberships	3,133,081	—	3,133,081	3,219,365	—	3,219,365
In-kind contributions (note 14)	50,317	—	50,317	32,014	—	32,014
Financial support received from volunteer groups	113,837	—	113,837	79,506	—	79,506
Admissions	1,766,997	—	1,766,997	3,698,137	—	3,698,137
Museum store sales	953,051	—	953,051	1,710,289	—	1,710,289
Rental income	1,684,643	—	1,684,643	779,345	—	779,345
Tuition and fees	51,286	—	51,286	27,856	—	27,856
Total investment return (note 6)	642,189	6,366,093	7,008,282	(650,177)	(6,922,598)	(7,572,775)
Other revenues and gains (note 15)	1,948,681	—	1,948,681	2,276,883	88	2,276,971
<b>Total revenues and gains</b>	<b>13,716,849</b>	<b>22,038,517</b>	<b>35,755,366</b>	<b>16,306,990</b>	<b>25,202,086</b>	<b>41,509,076</b>
Net assets released from restrictions (note 12)	6,650,591	(6,650,591)	—	6,175,983	(6,175,983)	—
<b>Total revenues, gains and other support</b>	<b>20,367,440</b>	<b>15,387,926</b>	<b>35,755,366</b>	<b>22,482,973</b>	<b>19,026,103</b>	<b>41,509,076</b>
Expenses (note 16):						
Program activities:						
Acquisition of art (note 9)	599,944	—	599,944	369,733	—	369,733
Museum programs	13,779,872	—	13,779,872	13,094,198	—	13,094,198
PAM CUT programs	1,794,936	—	1,794,936	1,096,000	—	1,096,000
<b>Total program activities</b>	<b>16,174,752</b>	<b>—</b>	<b>16,174,752</b>	<b>14,559,931</b>	<b>—</b>	<b>14,559,931</b>
Supporting activities:						
Management and general	3,286,601	—	3,286,601	2,615,277	—	2,615,277
Fundraising, membership, and development	3,494,168	—	3,494,168	2,982,819	—	2,982,819
<b>Total supporting activities</b>	<b>6,780,769</b>	<b>—</b>	<b>6,780,769</b>	<b>5,598,096</b>	<b>—</b>	<b>5,598,096</b>
<b>Total expenses</b>	<b>22,955,521</b>	<b>—</b>	<b>22,955,521</b>	<b>20,158,027</b>	<b>—</b>	<b>20,158,027</b>
Net change in net assets	(2,588,081)	15,387,926	12,799,845	2,324,946	19,026,103	21,351,049
Net assets at beginning of year	66,316,377	119,958,739	186,275,116	63,991,431	100,932,636	164,924,067
<b>Net assets at end of year</b>	<b>\$ 63,728,296</b>	<b>135,346,665</b>	<b>199,074,961</b>	<b>66,316,377</b>	<b>119,958,739</b>	<b>186,275,116</b>

See accompanying notes to consolidated financial statements.

PORTLAND ART MUSEUM

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 9,700,381	9,561,765
Cash received from admissions and service recipients	2,110,293	5,561,071
Interest and dividends received	2,274,484	1,868,365
Other receipts	3,684,610	1,248,272
Cash paid for amounts included in the measurement of operating leases obligations	(334,604)	—
Cash paid to employees and suppliers	(18,957,652)	(16,354,166)
Net change in cash from operating activities	(1,522,488)	1,885,307
Cash flows from investing activities:		
Proceeds from the sale of investments	23,088,666	16,262,676
Purchases of investments	(20,418,341)	(34,048,778)
Reinvestment of investment income	(2,201,852)	(1,833,023)
Architectural fees and other capital campaign costs	(1,040,889)	(881,217)
Acquisition of property and equipment	(13,024,002)	(1,454,919)
Acquisition of works of art ( <i>note 9</i> )	(599,944)	(369,733)
Net change in cash from investing activities	(14,196,362)	(22,324,994)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	1,099,583	5,207,708
Proceeds from contributions restricted for capital investment	10,374,649	16,973,995
Net change in cash from financing activities	11,474,232	22,181,703
Net change in cash and cash equivalents	(4,244,618)	1,742,016
Cash and cash equivalents at beginning of year	8,417,121	6,675,105
Cash and cash equivalents at end of year	\$ 4,172,503	8,417,121

Supplemental schedule of cash flows information:

Right-of-use assets upon FASB ASU 2016-02 implementation – operating leases	\$ 3,234,222	—
Right-of-use assets obtained in exchange for new operating lease obligations	2,686,926	—
Paycheck Protection Program loan forgiveness	—	1,835,900

See accompanying notes to consolidated financial statements.



PORTLAND ART MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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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 changes 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 Foundation 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 asset 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.

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.

Right of Use Assets and Lease Obligations – The Museum recognizes a right-of-use asset and a lease liability, initially measured at the present value of the lease payments for operating leases not classified as short-term leases. The obligations associated with the leases are recognized as a liability based on the discounted future lease payments using the risk-free rate of return. The Museum includes fixed rent, predetermined rent escalations, rent-free periods, and deferred rent as lease components. Lease expense for lease payments is recognized on a straight-line basis over the term of the lease. Some leases may require variable payments for taxes, and operating expenses which are expensed as incurred.

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.

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 a point in time, as 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. See note 10.
- The Museum offers memberships in a variety of categories for typically a one-year term. Membership proceeds are allocated between a contribution portion, which is recognized immediately, and an exchange portion, which is recognized ratably over the membership term. See note 10.

*Contributions* – Contributions, which include unconditional promises to give (pledges), 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 changes 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.

**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.

**Advertising and Marketing Expenses** – Advertising and marketing costs are charged as expenses as they are incurred. Advertising and marketing expenses totaled \$391,214 and \$293,298 for the years ended June 30, 2023 and 2022, respectively.

**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, 2023 and 2022, the Museum held \$7,929,188 and \$5,919,792, respectively, in cash balances in excess of FDIC/SIPC-insured levels.

Moreover, 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. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

Finally, 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.

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.

Subsequent Events – Subsequent events have been evaluated by management through November 6, 2023, 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. Recently-Adopted Accounting Standard

In February of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to record right-of-use (“ROU”) assets and related lease obligations on the statement of financial position for all leases with a term longer than 12 months. On July 1, 2022, the Museum adopted ASU No. 2016-02, as amended.

At the time of adoption, and in accordance with ASU 2016-02, the Museum elected the package of practical expedients to not reassess: 1) whether any expired or existing contracts are or contain a lease, 2) lease classification for any expired or existing leases, and 3) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842. The Museum has also elected the short-term lease exemption policy which permits an organization to not recognize leases, at the commencement date, with a lease term of 12 months or less in its statement of financial position. The Museum uses a risk-free rate at lease commencement date for discounting leases, and has elected not to separate lease and non-lease components in the calculation of the ROU assets and lease obligations. The Museum also elected the practical expedient to use hindsight when determining lease term.

The Museum elected the modified retrospective transition approach with the cumulative effect of application recognized at the effective date of adoption and comparative periods are not adjusted.

As a result of adoption, on July 1, 2022, the Museum recognized operating ROU assets and operating lease obligations of \$3,234,222, which represents the present value of the remaining lease payments, discounted using the risk-free rate at the date of adoption measured over the remaining lease term. Comparative prior period information has not been restated. Also see note 19.

### 4. Contributions Receivable

Contributions receivable at June 30, 2023 and 2022 are summarized as follows:

	2023	2022
Donor-restricted endowments	\$ 3,420,007	2,585,000
Capital campaign	18,909,268	19,490,493
Museum operations and programs	1,062,037	1,435,461
	23,391,312	23,510,954
Less discount <sup>1</sup>	(1,082,491)	(1,205,947)
Less allowance for doubtful collection	(1,264,277)	(2,351,095)
	\$ 21,044,544	19,953,912

<sup>1</sup> Unconditional promises to give which are due in more than one year are reflected at the present value of estimated future cash flows using discount rates of 5.18% in 2023, and 3.45% in 2022.

Amounts due at June 30, 2023 and 2022 are as follows:

	2023	2022
<i>Unconditional promises expected to be collected in:</i>		
Less than one year	\$ 12,655,396	7,949,286
One year to five years	10,255,916	14,461,084
Greater than five years	480,000	1,100,584
	\$ 23,391,312	23,510,954

### Conditional Capital Campaign Contributions

As of June 30, 2023, the Museum had received an additional \$3,363,095 in conditional capital campaign contributions, which are not yet recorded in the financial statements. Of this total, \$496,428 are conditioned upon raising additional matching funds, \$866,667 upon achieving certain construction benchmarks, \$1,000,000 upon legislative approval of the funds, and \$1,000,000 as “top off” gifts conditioned upon raising sufficient funds for the project.

### 5. Inventories and Prepayments

At June 30, 2023 and 2022, the following summarizes the Museum’s inventories and prepayments:

	2023	2022
Museum store inventory	\$ 337,936	252,333
Prepaid exhibition expenses	160,740	156,096
Other prepayments	310,734	93,075
	<u>\$ 809,410</u>	<u>501,504</u>

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

Cash and investments carried at fair value as of June 30, 2023 and 2022 comprised the following:

	2023	2022
Equity mutual funds	\$ 43,392,523	39,571,447
Fixed income mutual funds	7,118,578	7,856,116
Corporate bonds and notes	42,767,213	42,468,317
Real return mutual funds	4,320,597	5,639,712
Balanced index mutual funds	103,374	102,889
Interests in private equity partnerships	16,336,068	14,182,074
	<u>114,038,353</u>	<u>109,820,555</u>
Money market funds and other cash and cash equivalents	4,172,503	8,417,121
	<u>\$ 118,210,856</u>	<u>118,237,676</u>

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

	2023	2022
Cash and cash equivalents	\$ 4,172,503	8,417,121
Short-term investments	2,617,015	3,476,216
Investments	111,421,338	106,344,339
	<u>\$ 118,210,856</u>	<u>118,237,676</u>

At June 30, 2023 and 2022, cash and investments were held for the following purposes:

	2023	2022
Operations	\$ 13,222,949	15,809,569
Capital campaign	39,948,185	41,276,158
Endowment funds <sup>1</sup>	65,039,722	61,151,949
	<u>\$ 118,210,856</u>	<u>118,237,676</u>

<sup>1</sup> Includes both donor-restricted and Board-designated endowment funds.

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

*Continued*

Total investment return for the year ended June 30, 2023 is summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Interest and dividend income, net	\$ 120,546	2,153,938	2,274,484
Net change in the fair value of investments	521,643	4,164,628	4,686,271
Net change in beneficial interest in charitable trusts ( <i>note 7</i> )	–	47,527	47,527
<b>Total investment return</b>	<b>\$ 642,189</b>	<b>6,366,093</b>	<b>7,008,282</b>

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 change in the fair value of investments	(819,506)	(8,397,894)	(9,217,400)
Net change in beneficial interest in charitable trusts ( <i>note 7</i> )	–	(223,740)	(223,740)
<b>Total investment return</b>	<b>\$ (650,177)</b>	<b>(6,922,598)</b>	<b>(7,572,775)</b>

#### 7. Beneficial Interest in Charitable Trusts

A summary of the Museum's beneficial interest in charitable trusts at June 30, 2023 and 2022 is as follows:

	2023	2022
Charitable remainder trusts	\$ 112,312	85,667
Perpetual trusts	1,022,645	1,001,763
	<b>\$ 1,134,957</b>	<b>1,087,430</b>

The changes in the Museum's beneficial interest in charitable remainder and perpetual trusts for the years ended June 30, 2023 and 2022 are summarized as follows:

	2023	2022
Fair value at beginning of year	\$ 1,087,430	1,311,170
Net change in fair value <sup>1</sup>	47,527	(223,740)
Fair value at end of year	<b>\$ 1,134,957</b>	<b>1,087,430</b>

<sup>1</sup> The net change in fair value reported is net of distributions of \$54,500 and \$49,250 received from these trusts during the years ended June 30, 2023 and 2022, respectively.



## 8. Property and Equipment

A summary of property and equipment at June 30, 2023 and 2022 is as follows:

	2023	2022
Land and land improvements	\$ 3,565,225	3,565,225
Main building	10,117,660	9,477,607
Mark building	42,415,682	42,415,682
Hoffman wing	18,892,260	18,892,260
Furniture and equipment	9,218,523	8,925,817
Leasehold improvements	574,360	574,360
Construction-in-progress	15,018,199	928,455
	99,801,909	84,779,406
Less accumulated depreciation and amortization	(41,551,970)	(39,888,536)
	\$ 58,249,939	44,890,870

The Museum has commenced a capital campaign to extensively renovate existing spaces within the two buildings and to construct a new Mark Rothko Pavilion to connect them. The project is expected to be completed in March 2025 at a construction cost of \$79 million plus associated direct and indirect costs. Construction-in-progress represents the capitalized costs of the work carried out at the balance sheet date. Also see notes 12 and 20.

## 9. Museum Collections

During the years ended June 30, 2023 and 2022, the Museum acquired works of art for a total cost of \$599,944 and \$369,733, respectively. During these same periods, the Museum accepted donations of art with an estimated value of \$4,388,890 and \$1,662,098, respectively.

During the years ended June 30, 2023 and 2022, no works of art were deaccessioned.

## 10. Revenues from Contracts with Customers and Deferred Revenues

For revenue from contracts with customers, the timing of revenue recognition, billings and cash collections may result in billed accounts receivable (contract assets) and customer advances and deposits (contract liabilities) on the consolidated statements of financial position. See note 2 for additional descriptions of the types of revenue recognition.

The contract balances (accounts receivable) are all for revenues recognized at a point in time at June 30, 2023, 2022, and 2021.

The beginning and ending contract liability balances are as follows for the years ended June 30, 2023 and 2022:

	2023	2022	2021
Point in time:			
Rental events	\$ 233,088	180,083	168,527
Other earned income	37,658	88,055	6,569
Over time:			
Memberships	1,093,259	1,277,740	966,880
	\$ 1,364,005	1,545,878	1,141,976

Revenue recognized for the years ended June 30, 2023 and 2022 that was included in the contract liability balance at the beginning of each year was \$1,529,696 and \$1,110,693, respectively. Contract assets were fully collected in the immediate fiscal year following the recognition of the contract asset.

## 11. Net Assets Designated by the Board of Trustees

At June 30, 2023 and 2022, the following net assets without donor-imposed restrictions had been designated by the Board of Trustees for the following purposes:

	2023	2022
Board-designated endowment funds held for:		
Long-term investment	\$ 6,753,819	6,279,754
Deferred maintenance	638,000	881,000
Specific operating expenses	342,000	267,000
Total board designated endowment funds (note 13)	7,733,819	7,427,754
Future operating support	1,379,094	—
Total Board designated funds	\$ 9,112,913	7,427,754

## 12. Net Assets with Donor Restrictions

The following summarizes the Museum's net assets with donor-imposed restrictions as of June 30, 2023 and 2022:

	2023	2022
<i>Expendable net assets restricted for the following purposes:</i>		
Acquisition of works of art	\$ 1,036,187	1,086,856
Specific program expenses	4,318,919	3,950,166
Capital campaign	54,746,252	57,481,324
	60,101,358	62,518,346
<i>Expendable net assets unrestricted as to purpose, but restricted as to time</i>	424,725	371,214
Total expendable net assets	60,526,083	62,889,560
<i>Capital assets not yet placed in service:</i>		
Rothko Pavilion	13,479,428	—

*Continued*

## *Endowment restricted for the following purposes:*

Funded staff positions	16,347,882	15,414,756
Access and education	9,838,358	9,204,732
Museum operations	11,396,945	10,211,108
Exhibitions	8,533,346	8,149,103
Acquisition of works of art	3,515,093	3,028,614
	49,631,624	46,008,313

## *Endowment unrestricted as to purpose*

	10,686,885	10,059,103
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Total endowment (note 13)	60,318,509	56,067,416
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## *Other donor-restricted net assets:*

Beneficial interest in perpetual trusts (note 7)	1,022,645	1,001,763
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Total net assets with donor restrictions	\$ 135,346,665	119,958,739
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## *Net Assets Released from Donor Restrictions*

For the years ended June 30, 2023 and 2022, releases from restrictions in satisfaction of the purposes specified by donors, or by the occurrence of other events, were as follows:

	2023	2022
Acquisition of works of art	\$ 538,532	219,341
Capital campaign	867,412	990,609
Other operational support	5,244,647	4,966,033
	\$ 6,650,591	6,175,983

### 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, 2023:

	With donor restrictions			Total	Without donor restrictions	Total endowment
	Underwater endowment	Accumulated endowment return	Endowment principal			
Endowment net assets at beginning of year	\$ (1,443,707)	6,190,605	51,320,518	56,067,416	7,427,754	63,495,170
Contributions and bequests	—	—	1,814,822	1,814,822	642,891	2,457,713
Investment return	—	4,977,823	(19,751)	4,958,072	643,408	5,601,480
Net change in cumulative endowment losses	477,410	—	—	477,410	—	477,410
Appropriation of endowment assets for expenditure	—	(2,999,211)	—	(2,999,211)	(980,234)	(3,979,445)
Endowment net assets at end of year	\$ (966,297)	8,169,217	53,115,589	60,318,509	7,733,819	68,052,328

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

Appropriation of endowment assets for expenditure encompassed the following for the years ended June 30, 2023 and 2022:

	2023	2022
Appropriation of 5.0% spending rate to fund operations	\$ (3,393,216)	(3,143,382)
Utilization of Board-designated endowment to acquire capital assets	(586,229)	(1,257,741)
Total appropriation	\$ (3,979,445)	(4,401,123)

*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, 2023, the Museum held endowment funds with original gift values of \$11,111,354, fair value of \$10,145,057, and deficiencies of \$966,297.

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.

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, 2023 and 2022:

		2023	2022
Museum programs	\$	50,317	32,014

#### 15. Other Revenues and Gains

Other revenues consist of the following for the years ended June 30, 2023 and 2022:

		2023	2022
Rental sales gallery	\$	380,023	337,778
Insurance proceeds		26,083	63,818
Other		163,481	39,475
PPP loan forgiveness <sup>1</sup>		–	1,835,900
Employee Retention Tax Credit <sup>2</sup>		1,379,094	–
	\$	1,948,681	2,276,971

<sup>1</sup> 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 of 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.

<sup>2</sup> During the year ended June 30, 2023, the Museum received \$1,379,094 in Employee Retention Tax Credit pursuant to the CARES Act and the American Rescue Plan Act which were enacted to encourage businesses to keep employees on their payroll during the COVID-19 crisis.

The credit was claimed for the period starting January 1, 2021 through September 30, 2021. The credit covers 70% of qualified wages up to \$10,000 limit per employee per quarter. The credit is applied against the organization’s share of social security taxes under Section 3111(a) of the Internal Revenue Code and is fully refundable for the amount of the credit in excess of taxes owed.

## 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, 2023 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	\$ —	6,662,984	738,433	7,401,417	2,189,384	2,046,271	4,235,655	11,637,072
Services and professional fees	—	1,020,572	313,105	1,333,677	567,114	870,432	1,437,546	2,771,223
Exhibition installation	—	1,066,745	39,525	1,106,270	—	—	—	1,106,270
Acquisition of art	599,944	—	—	599,944	—	—	—	599,944
Occupancy	—	910,722	177,034	1,087,756	256,442	9,713	266,155	1,353,911
Merchandise	—	482,087	—	482,087	—	—	—	482,087
Travel and events	—	491,602	203,341	694,943	52,026	136,228	188,254	883,197
Printing, publications and advertising	—	460,923	63,206	524,129	38,447	135,836	174,283	698,412
Equipment and supplies	—	474,869	65,125	539,994	115,984	63,314	179,298	719,292
Merchant and bank fees	—	138,524	15,863	154,387	50,614	136,326	186,940	341,327
Depreciation and amortization	—	1,258,752	92,197	1,350,949	406,049	20,936	426,985	1,777,934
Other	—	280,423	87,107	367,530	142,210	75,112	217,322	584,852
	599,944	13,248,203	1,794,936	15,643,083	3,818,270	3,494,168	7,312,438	22,955,521
Allocation of exhibitions' overhead costs	—	531,669	—	531,669	(531,669)	—	(531,669)	—
	\$ 599,944	13,779,872	1,794,936	16,174,752	3,286,601	3,494,168	6,780,769	22,955,521

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

Exhibition-related costs in the preceding tables totaled \$2,461,513 and \$3,298,563 for the years ended June 30, 2023 and 2022, 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, 2023, the Museum matched participating employees' contributions to the Plan, up to 4% of total annual compensation. Total Museum contributions to the Plan for the years ended June 30, 2023 and 2022 amounted to \$235,033 and \$202,794, respectively.

## 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.

*Continued*

To provide for possible future expansion of its facilities, in November of 2006 the Museum acquired additional parcels of land in the City of Portland located next to the Museum's current facilities. The acquisition included two parcels of property, one representing the outright purchase of fee title interest in real property and the second representing the acquisition of all interest in property subject to a 99-year ground lease, together with various exchange option and extension agreements. These assets are carried at \$4,837,854 at June 30, 2023 and 2022.

Rent expense associated with this arrangement totaled \$118,622 and \$107,839 for the years ended June 30, 2023 and 2022, respectively.

#### *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. Operating Leases

In addition to the 99-year ground lease referred to in note 18, 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 was under renovation. Rent payments became due on this space at the time the tenant improvements were completed, which was in July 2023, and will run for a minimum of 72 months.

At June 30, 2023, the Museum's ROU asset and corresponding lease obligations totaled \$5,667,243 and \$5,732,273, respectively.

As of June 30, 2023, the weighted-average discount rate was 3.27%, and the remaining weighted average lease term was 53 years.

#### *Future Lease Payments*

The following table reconciles the undiscounted cash flows expected to be paid in each of the next five years and thereafter to the lease liability recorded on the statement of financial position for operating leases existing as of June 30, 2023:

<i>Years ending June 30,</i>	
2024	\$ 428,895
2025	465,494
2026	472,563
2027	484,741
2028	497,320
Thereafter	10,118,719
<hr/>	
Total minimum lease payments	12,467,732
Less present value discount	(6,735,459)
<hr/>	
Total lease obligations	\$ 5,732,273

Rent expense associated with these lease arrangements including variable lease payments totaled \$470,983 and \$337,466 for the years ended June 30, 2023 and 2022, respectively.

In addition, the Museum subleases a parking lot under a single-year lease to an unrelated party. Annual rental revenues totaled \$288,458 and \$296,579 for the years ended June 30, 2023 and 2022, respectively.

### 20. Other Commitments and Contingencies

The Museum has entered into several contracts regarding future exhibitions. Outstanding commitments under these contracts totaled approximately \$138,776 and \$244,105 at June 30, 2023 and 2022, respectively. In addition, the Museum has outstanding commitments related to the capital campaign totaling \$69,803,351 and \$0 at June 30, 2023 and 2022, respectively.



## 21. Liquidity and Availability of Financial Assets

The Museum manages its financial assets to be available for general expenditures, liabilities and other obligations as they come due. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other limitations include donor restricted endowment funds, board designated endowment funds, trust assets, and donor-restricted funds.

The Museum invests cash in excess of daily requirements in cash and cash equivalents and investments.

The following table reflects the Museum's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditures within one year:

	2023	2022
Total financial assets at June 30	\$ 141,100,689	139,561,468
Less financial assets not available for expenditures within one year	(128,196,331)	(125,867,252)
	12,904,358	13,694,216
<i>Plus other funds subject to appropriation or approved for expenditure in the next fiscal year:</i>		
Endowment appropriations for operations	1,025,163	1,034,149
Total financial assets available within one year	\$ 13,929,521	14,728,365

In addition, the Museum holds board designated endowment funds totaling \$6,753,819 at June 30, 2023 (\$6,279,754 in 2022). Although the Museum does not intend to spend from its board designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval process, amounts from its board designated endowment could be made available if necessary. However, both the board designated and donor restricted endowments contain investments with lock-up provisions that would reduce the total investments that could be made available (see note 23 for additional disclosures about the Museum's investments).

*Continued*

## 22. 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, 2023 and 2022. The amount of future lease commitments is included among the disclosures in note 19.

## 23. 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.

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, 2023, 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>Equity mutual funds:</i>			
Large-cap domestic	\$ 16,286,709	–	16,286,709
Small and mid-cap domestic	8,743,704	–	8,743,704
Large-cap international	16,045,638	–	16,045,638
Small-cap international	2,316,472	–	2,316,472
Total equity mutual funds	43,392,523	–	43,392,523
Fixed income mutual funds	7,118,578	–	7,118,578
Corporate bonds and notes	42,767,213	–	42,767,213
Real return mutual funds	4,320,597	–	4,320,597
Balanced index mutual funds	103,374	–	103,374
Total investments, measured at fair value	97,702,285	–	97,702,285
Interests in private equity partnerships, measured at net asset value			16,336,068
Total investments ( <i>see note 6</i> )			114,038,353
Contributions receivable ( <i>see note 4</i> )		21,044,544	21,044,544
Beneficial interest in charitable trusts ( <i>see note 7</i> )		1,134,957	1,134,957

Investments measured at fair value using net asset value as a practical expedient are as follows at June 30, 2023:

	Fair value at June 30	Unfunded commitments	Redemption frequency	Redemption notice period
Absolute return hedge funds [A]	\$ 5,735,604	\$ none	quarterly	70 days
Private equity funds [B]	4,656,280	271,324	not allowed	n/a
Real estate fund [C]	5,944,184	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 for the year ended June 30, 2023 are as follows:

	Contributions receivable	Beneficial interest in charitable trusts
Fair value at beginning of year	\$ 19,953,912	1,087,430
Receipt of new contributions receivable	12,265,388	–
Collection of contributions receivable	(12,385,030)	–
Changes in the allowance for doubtful collection of receivables	1,086,818	–
Changes in the unamortized discount associated with contributions receivable	123,456	–
Change in beneficial interests in charitable trusts	–	47,527
Net changes	1,090,632	47,527
Fair value at end of year	\$ 21,044,544	1,134,957
	[A]	[B]

[A] The fair value of contributions receivable is based on the expected payment date, using a current discount rate of 5.18%. See note 4.

[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 7.

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:			
<i>Equity mutual funds:</i>			
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 ( <i>see note 6</i> )			109,820,555
Contributions receivable ( <i>see note 4</i> )		19,953,912	19,953,912
Beneficial interest in charitable trusts ( <i>see note 7</i> )		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.

The changes in valuation of Level 3 assets 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 4.

[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 7.

## 24. Statements of Cash Flows Reconciliation

The following presents a reconciliation of the changes in net assets (as reported on the consolidated statements of activities) to the net changes in cash from operating activities (as reported on the consolidated statements of cash flows):

	2023	2022
Changes in net assets	\$ 12,799,845	21,351,049
<i>Adjustments to reconcile the changes in net assets to the net changes in cash from operating activities:</i>		
Depreciation and amortization	1,777,934	1,786,123
Net change in the fair value of investments (note 6)	(4,686,271)	9,217,400
Acquisition of works of art (note 9)	599,944	369,733
Proceeds from contributions restricted for long-term investment	(1,099,583)	(5,207,708)
Proceeds from contributions restricted for capital acquisition	(10,374,649)	(16,973,995)
Expenses associated with capital campaign costs	1,040,889	881,217
Net change in beneficial interest in charitable trusts (note 7)	(47,527)	223,740
Amortization of right-of-use assets – operating leases	253,905	–
Paycheck Protection Program loan forgiveness (note 15)	–	(1,835,900)
<i>Net changes in:</i>		
Accounts receivable	(427,882)	(251,257)
Contributions receivable	(1,090,632)	(8,818,953)
Inventories and prepayments	(307,906)	446,645
Other assets	(5,022)	9,227
Accounts payable and accrued expenses	267,804	341,155
Accrued payroll and related expenses	169,253	(62,253)
Deferred revenues	(181,873)	403,902
Lease obligation – operating lease	(188,875)	–
Other liabilities	(21,842)	5,182
Total adjustments	(14,322,333)	(19,465,742)
Net changes in cash from operating activities	\$ (1,522,488)	1,885,307

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PORTLAND ART MUSEUM

GOVERNING BOARD AND MANAGEMENT

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*Chair*

Angela Snow  
*Vice-Chair*

Jin Park  
*Treasurer*

Mary Lee Boklund  
*Secretary*

- 
- <sup>1</sup> Executive committee  
<sup>2</sup> Finance committee  
<sup>3</sup> Audit committee  
<sup>4</sup> Investment committee  
<sup>5</sup> Governance committee

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Jude Jeannis <sup>4</sup>

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Stephanie Parrish  
*Director of Learning and  
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Donald Urquhart  
*Director of Collections  
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PORTLAND ART MUSEUM  
INQUIRIES AND OTHER INFORMATION

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