Audited Financial Statements

The Cleveland Museum of Art
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

The Cleveland Museum of Art

Audited Financial Statements

Years Ended June 30, 2011 and 2010

Contents

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Report of Independent Auditors

The Board of Trustees
The Cleveland Museum of Art

We have audited the accompanying statements of financial position of The Cleveland Museum of Art (the Museum) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Museum's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

November 23, 2011

The Cleveland Museum of Art

Statements of Financial Position

(In Thousands)

	June 30 2011	June 30 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,985**	$ 7,365
Investments for current use	**6,275**	12,168
Accounts receivable	**214**	261
Inventories	**651**	635
Other current assets	**808**	914
Total current assets	**14,933**	21,343
Investments:		
Endowment investments	**384,560**	338,646
Funds committed for construction-in-progress	**52,346**	–
Buildings and equipment:		
Buildings and improvements	**218,766**	212,479
Equipment	**18,818**	18,269
Construction-in-progress	**103,458**	58,224
	341,042	288,972
Less accumulated depreciation	**55,022**	48,133
Total buildings and equipment – net	**286,020**	240,839
Other assets:		
Charitable perpetual trusts	**290,539**	244,083
Pledges receivable	**19,748**	26,983
Other	**2,195**	1,447
	312,482	272,513
Total assets	**$ 1,050,341**	$ 873,341

	June 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 17,236**	$ 16,219
Deferred revenue	**282**	275
Other current liabilities	**352**	241
Total current liabilities	**17,870**	16,735
Long-term debt	**165,577**	90,000
Other liabilities:		
Accrued postretirement medical benefits	**2,437**	2,332
Accrued pension obligation	**3,494**	3,266
Other	**6,994**	7,214
	12,925	12,812
Total liabilities	**196,372**	119,547
Net assets:		
Unrestricted	**109,005**	102,403
Temporarily restricted	**384,481**	339,909
Permanently restricted	**360,483**	311,482
Total net assets	**853,969**	753,794
Total liabilities and net assets	**$ 1,050,341**	$ 873,341

See accompanying notes.

The Cleveland Museum of Art

Statement of Activities
(In Thousands)

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Endowment and trust income	**$ 10,878**	**$ 8,374**	**$ –**	**$ 19,252**
Contributions and membership	**3,832**	**10,999**	**–**	**14,831**
Gifts, grants, and other revenue for special exhibitions	**240**	**–**	**–**	**240**
Program revenues and other support	**3,445**	**585**	**–**	**4,030**
Stores, café, parking, and products	**1,200**	**–**	**–**	**1,200**
Net assets released from restrictions used for operations	**19,657**	**(19,657)**	**–**	**–**
Total revenues and support	**39,252**	**301**	**–**	**39,553**
Expenses				
Curatorial, conservation, and registrar	**6,130**	**–**	**–**	**6,130**
Special exhibitions	**1,537**	**–**	**–**	**1,537**
Education, library, and community programs	**4,325**	**–**	**–**	**4,325**
Marketing and communications	**1,778**	**–**	**–**	**1,778**
Development and membership services	**2,646**	**–**	**–**	**2,646**
General and administrative	**5,601**	**–**	**–**	**5,601**
Building facilities and security	**7,714**	**–**	**–**	**7,714**
Stores, café, parking, and products	**1,293**	**–**	**–**	**1,293**
Depreciation	**6,889**	**–**	**–**	**6,889**
Total expenses	**37,913**	**–**	**–**	**37,913**
Excess of revenues and support over expenses before other changes in net assets	**1,339**	**301**	**–**	**1,640**
Other changes in net assets				
Trust revenue designated for art purchases	**–**	**4,337**	**–**	**4,337**
Investment return designated for art purchase	**–**	**8,858**	**–**	**8,858**
Net assets released from restrictions used to fund acquisition of art objects	**9,204**	**(9,204)**	**–**	**–**
Expenditures for acquisition of art objects	**(9,204)**	**–**	**–**	**(9,204)**
Gifts and contributions	**–**	**680**	**2,448**	**3,128**
Other changes	**166**	**1,441**	**97**	**1,704**
Investment return after amounts designated	**6,917**	**38,159**	**–**	**45,076**
Change in fair value of derivative instruments	**567**	**–**	**–**	**567**
Change in fair value of charitable perpetual trusts	**–**	**–**	**46,456**	**46,456**
Changes in funded status of pension benefits	**(1,945)**	**–**	**–**	**(1,945)**
Changes in funded status of postretirement medical benefits	**(442)**	**–**	**–**	**(442)**
Increase in net assets	**6,602**	**44,572**	**49,001**	**100,175**
Net assets at beginning of year	**102,403**	**339,909**	**311,482**	**753,794**
Net assets at end of year	**$ 109,005**	**$ 384,481**	**$ 360,483**	**$ 853,969**

See accompanying notes.

The Cleveland Museum of Art

Statement of Activities
(In Thousands)

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Endowment and trust income	$ 11,101	$ 9,312	$ –	$ 20,413
Contributions and membership	3,780	24,659	–	28,439
Gifts, grants, and other revenue for special exhibitions	549	–	–	549
Program revenues and other support	3,355	974	–	4,329
Stores, café, parking, and products	1,571	–	–	1,571
Net assets released from restrictions used for operations	19,706	(19,706)	–	–
Total revenues and support	40,062	15,239	–	55,301
Expenses				
Curatorial, conservation, and registrar	5,889	–	–	5,889
Special exhibitions	1,015	–	–	1,015
Education, library, and community programs	4,214	–	–	4,214
Marketing and communications	1,844	–	–	1,844
Development and membership services	2,615	–	–	2,615
General and administrative	7,277	–	–	7,277
Building facilities and security	7,520	–	–	7,520
Stores, café, parking, and products	1,743	–	–	1,743
Depreciation	6,754	–	–	6,754
Total expenses	38,871	–	–	38,871
Excess of revenues and support over expenses before other changes in net assets	1,191	15,239	–	16,430
Other changes in net assets				
Trust revenue designated for art purchases	–	4,193	–	4,193
Investment return designated for art purchase	–	9,293	–	9,293
Net assets released from restrictions used to fund acquisition of art objects	10,804	(10,804)	–	–
Expenditures for acquisition of art objects	(10,804)	–	–	(10,804)
Gifts and contributions	1,531	67	1,955	3,553
Other changes	469	769	–	1,238
Investment return after amounts designated	2,484	13,056	–	15,540
Change in fair value of derivative instruments	(3,707)	–	–	(3,707)
Change in fair value of charitable perpetual trusts	–	–	12,547	12,547
Changes in funded status of pension benefits	(1,346)	–	–	(1,346)
Changes in funded status of postretirement medical benefits	(338)	–	–	(338)
Increase in net assets	284	31,813	14,502	46,599
Net assets at beginning of year	102,119	308,096	296,980	707,195
Net assets at end of year	$ 102,403	$ 339,909	$ 311,482	$ 753,794

See accompanying notes.

The Cleveland Museum of Art

Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2011	**2010**
Operating activities		
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
Increase in net assets	**$ 100,175**	$ 46,599
Adjustments to reconcile increase in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	**6,889**	6,754
Amortization of bond premiums	**(340)**	–
Change in fair value of derivative instruments	**(567)**	3,707
Net realized and unrealized gains on long-term investments	**(60,012)**	(33,594)
Contributions restricted for long-term purposes	**(10,768)**	(33,872)
Increase in fair value of charitable perpetual trusts	**(46,456)**	(12,547)
Acquisitions and sales of art, net	**7,683**	10,035
Changes provided by (used in) operating assets and liabilities:		
Decrease (increase) in accounts receivable	**47**	(21)
Decrease in inventories and other current assets	**90**	10,808
Decrease in pledges receivable	**7,235**	7,262
Decrease in other assets	**127**	62
Increase in accounts payable and accrued expenses	**1,017**	1,895
Decrease (increase) in deferred revenue	**7**	(68)
Decrease (increase) in other current liabilities	**111**	(10,877)
Increase in other liabilities	**680**	1,361
Net cash provided by (used in) operating activities	**5,918**	(2,496)
Financing activities		
Proceeds from long-term borrowings	**75,917**	–
Contributions restricted for long-term purposes	**10,768**	33,872
Debt issuance costs	**(875)**	–
Net cash provided by financing activities	**85,810**	33,872
Investing activities		
Purchases of buildings and equipment	**(52,070)**	(32,244)
Acquisition of art objects	**(9,204)**	(10,804)
Proceeds from the sale of art	**1,521**	769
Proceeds from sales and maturities of investments	**95,773**	29,899
Purchases of investments	**(128,128)**	(13,528)
Net cash used in investing activities	**(92,108)**	(25,908)
Net (decrease) increase in cash and cash equivalents	**(380)**	5,468
Cash and cash equivalents at beginning of year	**7,365**	1,897
Cash and cash equivalents at end of year	**$ 6,985**	$ 7,365

See accompanying notes.

1. Organization

The Cleveland Museum of Art (the Museum) maintains in the City of Cleveland a museum of art of the widest scope for the benefit of the public.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or for a specific purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Museum. Temporarily restricted gifts, grants, and bequests are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose or time restriction expires, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. For temporarily restricted net assets restricted for major capital projects, the Museum has adopted a policy of implying a time restriction on the use of such assets that expires over the assets' useful lives. The Museum records a reclassification to unrestricted net assets as net assets released from restrictions for an amount equal to annual depreciation for building and improvements constructed with restricted funds. Reclassifications of $5,274 and $5,195 in 2011 and 2010, respectively, are reflected in the statements of activities in net assets released from restrictions used for operations.

Permanently restricted net assets consist of amounts held in perpetuity as designated by the donors. Earnings on investments are included in temporarily restricted revenues and other changes in net assets until appropriated for expenditure by the Museum in accordance with the donors' specifications.

2. Significant Accounting Policies (continued)

During fiscal 2010, the Museum received approval from the Court of Common Pleas, Probate Division to appropriate a percentage of the income restricted for art purchases generated from four charitable perpetual trusts for the purpose of funding the project costs associated with the expansion project currently undertaken by the Museum. The total appropriated is not to exceed $75,000. During fiscal 2011 and 2010, the Museum appropriated approximately $5,500 and $5,700, respectively, for said purpose from the temporarily restricted income from the four charitable perpetual trusts.

Art Collection

The Museum’s collections are made up of art objects and artifacts of historical significance that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Purchases for the collection are recorded as expenditures for the acquisition of art objects in the statements of activities in the year in which the objects are acquired. Proceeds from the deaccession of art objects are recorded as temporarily restricted net assets and are restricted to the acquisition of other art objects. In keeping with standard museum practice, the collections, which were acquired via purchases and contributions, are not recognized as assets on the statements of financial position.

Cash Equivalents

Cash equivalents are highly liquid investments with a maturity of three months or less when purchased. Cash equivalents are measured at fair value in the statements of financial position and exclude amounts limited to use by donor or board designation.

Investments for Current Use

Investments for current use (maturities of three to twelve months) are liquid investments, which are readily convertible into cash, with limited risk of change in value because of interest rate changes.

2. Significant Accounting Policies (continued)

Inventories

Inventories consist of merchandise available for sale and are stated at the lower of average cost or market.

Investment Income

Realized investment gains or losses are determined by comparison of the carrying value to net proceeds received on the settlement date. Unrealized gains or losses are determined by the difference between carrying value and fair value as of year-end. Investment income, including dividends and interest, and realized and unrealized gains (losses), is added to (deducted from) the appropriate net assets class (Note 8).

Investment income generated by permanently restricted net assets for which use of the income is restricted by the donor (excluding net realized and unrealized investment gains and losses) is reported as temporarily restricted until the program restriction of the donor is met. Investment income on temporarily restricted net assets for which use of the income is restricted by the donor is reported as temporarily restricted until the program restriction of the donor is met. Net unrealized and realized investment gains and losses are reported as unrestricted, temporarily restricted, or permanently restricted based upon the absence or presence of a restriction on the underlying asset.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Museum pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Museum with various programs.

Special Exhibitions

Other current assets and deferred revenue include expenditures and revenues in connection with the development of special exhibitions. Revenues and expenses are recognized pro rata over the life of the exhibition. Revenues include such items as corporate and individual sponsorships. The expenditures generally include such items as research, travel, insurance, transportation, and other costs related to the development and installation of the exhibition.

2. Significant Accounting Policies (continued)

Contributions

Unconditional pledges to give cash, marketable securities, and other assets are discounted to present value at the date the pledge is made to the extent estimated to be collectible by the Museum. Unconditional pledges with donor-imposed restrictions limiting their use to the acquisition of long-lived assets are classified as other assets on the statements of financial position. Conditional promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit use are reported as either temporarily or permanently restricted support, or other changes in net assets if designated for long-term investment. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Buildings and Equipment

Buildings and equipment are carried at cost. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed by the straight-line method using the estimated useful lives of the assets. Buildings and improvements are assigned a useful life of up to 40 years. Equipment is assigned a useful life ranging from three to five years. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The Museum is undertaking a major construction, renovation, and expansion project. Included in construction-in-progress are $103,188 and $57,889 related to the expansion and renovation project at June 30, 2011 and 2010, respectively. During fiscal 2011, $6,035 of the project was placed into service and is included in buildings and improvements. At June 30, 2011, the Museum had outstanding commitments for construction and other related capital contracts of approximately $49,700.

Derivative Instruments

The Museum recognizes its derivative instruments as either an asset or liability in the statements of financial position at fair value. The change in fair value of the derivative instruments is recognized in the statements of activities as other change in net assets in the period of change.

(In Thousands, Unless Noted)

3. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals are expected to be realized as follows:

	June 30 2011	June 30 2010
Pledges due:		
In less than one year	**$ 2,190**	$ 8,728
In one to five years	**15,535**	16,791
Greater than five years	**6,893**	6,893
	24,618	32,412
Present value discount on pledges (2.6%–5.38% discount rate)	**(4,870)**	(5,429)
	$ 19,748	$ 26,983

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30 2011	June 30 2010
Acquisition of art	**$ 140,525**	$ 121,311
Specific operating activities:		
Curatorial and conservation	**2,262**	2,067
Education, library, and community programs	**7,513**	6,385
Buildings, grounds, and protection services	**164,170**	156,764
General operating and other	**70,011**	53,382
Total temporarily restricted net assets	**$ 384,481**	$ 339,909

(In Thousands, Unless Noted)

5. Permanently Restricted Net Assets

Permanently restricted net assets are amounts held in perpetuity, the income from which is expendable to support the following purposes:

	June 30	
	2011	**2010**
Purchase of art	**$ 132,236**	$ 117,369
Specific operating activities	**20,349**	17,405
General operating activities	**207,898**	176,708
Total permanently restricted net assets	**$ 360,483**	$ 311,482

6. Net Assets Released From Restrictions

Net assets were released from restrictions by incurring expenses or making capital expenditures satisfying the restricted purposes as follows:

	Year Ended June 30	
	2011	**2010**
Acquisition of art	**$ 9,204**	$ 10,804
Specific operating activities:		
Curatorial and conservation	**$ 1,257**	$ 1,190
Education, library, and community programs	**1,020**	903
Buildings, grounds, and protection services	**3,186**	2,964
General operating and other	**14,194**	14,649
Net assets released from restrictions used for operations	**$ 19,657**	$ 19,706

7. Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 establishes a three-level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

- Level 1 – inputs to the validation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – inputs to the validation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(In Thousands, Unless Noted)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value at June 30, 2011, by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Investments for current use:				
Commercial paper	$ –	$ 6,275	$ –	$ 6,275
Investments:				
Cash and cash equivalents	14,203	–	–	14,203
Equities:				
Common stocks, primarily U.S.	46,573	–	–	46,573
Collective equity funds	–	98,301	–	98,301
Equity mutual funds	34,460	–	–	34,460
American depository receipts	2,191	–	–	2,191
Real estate investment trust	511	–	–	511
Fixed income securities:				
Corporate bonds	–	15,865	–	15,865
Foreign bonds	–	3,198	–	3,198
Asset-backed bonds	–	7,497	–	7,497
General obligation municipal bonds	–	731	–	731
Government bonds	–	1,015	–	1,015
Fixed income mutual fund	10,810	–	–	10,810
Alternative investments:				
Absolute return	–	–	65,631	65,631
Hedged equity	–	–	11,748	11,748
Private equity	–	–	71,826	71,826
Total investments	108,748	126,607	149,205	384,560
Investments from bond proceeds:				
Commercial paper	–	52,346	–	52,346
Charitable perpetual trusts	–	–	290,539	290,539
Total assets at fair value	$ 108,748	$ 185,228	$ 439,744	$ 733,720
Liabilities				
Interest rate swap	$ –	$ 5,466	$ –	$ 5,466
Total liabilities at fair value	$ –	$ 5,466	$ –	$ 5,466

(In Thousands, Unless Noted)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value at June 30, 2010, by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Investments for current use:				
Commercial paper	$ –	$ 12,168	$ –	$ 12,168
Investments:				
Cash and cash equivalents	8,558	–	–	8,558
Equities:				
Common stocks, primarily U.S.	35,072	–	–	35,072
Collective equity funds	–	78,987	–	78,987
Equity mutual funds	23,479	–	–	23,479
American depository receipt	1,291	–	–	1,291
Real estate investment trust	170	–	–	170
Fixed income:				
Corporate bonds	–	14,739	–	14,739
Foreign bonds	–	3,373	–	3,373
Asset-backed bonds	–	8,736	–	8,736
General obligation municipal bonds	–	709	–	709
Fixed income mutual fund	10,592	–	–	10,592
Alternative investments:				
Absolute return	–	–	69,629	69,629
Hedged equity	–	–	23,827	23,827
Private equity	–	–	59,484	59,484
Total investments	79,162	106,544	152,940	338,646
Charitable perpetual trusts	–	–	244,083	244,083
Total assets at fair value	$ 79,162	$ 118,712	$ 397,023	$ 594,897
Liabilities				
Interest rate swap	$ –	$ 6,033	$ –	$ 6,033
Total liabilities at fair value	$ –	$ 6,033	$ –	$ 6,033

The following is a description of the Museum's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation

7. Fair Value Measurements (continued)

techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Level 3 assets primarily consist of charitable perpetual trusts and alternative investments. The Museum is the sole income beneficiary of several charitable perpetual trusts and a partial income beneficiary of other charitable perpetual trusts. Because the trusts are held in perpetuity, the assets are classified as permanently restricted net assets. The charitable perpetual trusts are presented at the fair value of the Museum's portion of the underlying trust assets. Fair value of alternative investments (principally limited partnership interests in absolute return, hedged equity, and private equity) represent the Museum's ownership interest in the NAV of the respective partnership. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner, taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. At June 30, 2011, the Museum is committed to invest an additional $19,900 in alternative investments. However, it is uncertain as to the timing or level of additional contributions that will ultimately be made.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(In Thousands, Unless Noted)

7. Fair Value Measurements (continued)

The following table is a rollforward of financial instruments classified by the Museum within Level 3 of the valuation hierarchy defined above:

	Level 3 Fair Value as of July 1, 2010	Net Realized Gains	Net Unrealized Gains (Losses)	Purchases, Issuances and Settlements, Net	Level 3 Fair Value as of June 30, 2011
Investments:					
Absolute return	$ 69,629	$ 3,110	$ 4,930	$ (12,038)	$ 65,631
Hedged equity	23,827	3,768	(1,601)	(14,246)	11,748
Private equity	59,484	2,948	12,440	(3,046)	71,826
Charitable perpetual trusts	244,083	–	46,456	–	290,539
Total	$ 397,023	$ 9,826	$ 62,225	$ (29,330)	$ 439,744

At June 30, 2011, the Museum's alternative investments are subject to various liquidity restrictions as follows:

Available for redemption:	
Quarterly	$ 20,522
Subject to remaining lock-up provisions:	
One to three years	53,926
More than three years	74,757
Total alternatives	$ 149,205

Investments that are available for redemption may be redeemed by the Museum generally with a 60 to 120 day advance notice on a quarterly or annual basis subject to the terms of the investment agreement.

Investments subject to lock-up provisions cannot be redeemed by the Museum currently without incurring a penalty. After expiration of the lock-up provisions, the funds may be redeemed by the Museum on a monthly, quarterly, or annual redemption basis subject to the terms of the investment agreement.

(In Thousands, Unless Noted)

7. Fair Value Measurements (continued)

ASC 825, *Financial Instruments,* provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Museum did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The carrying value of pledges receivable approximates fair value as these donations are recorded at the net present value of the amount pledged. The carrying value of the Museum's variable rate long-term debt approximates fair value. The Museum's fixed rate long-term debt had a carrying value of $70,430 and a fair value of $74,598 at June 30, 2011.

8. Investments and Charitable Perpetual Trusts

The following summarizes returns from the Museum's investments and charitable perpetual trusts and the related classifications in the statements of activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Year ended June 30, 2011			
Dividends and interest	$ 829	$ 4,347	$ –
Realized and unrealized gains, net of realized and unrealized losses	9,120	50,892	–
Change in fair value of charitable perpetual trusts	–	–	46,456
Investment return	9,949	55,239	46,456
Investment return designated for current operations (included in endowment and trust income)	(3,032)	(8,222)	–
Investment return designated for art purchase	–	(8,858)	–
Investment return after amounts designated	$ 6,917	$ 38,159	$ 46,456

(In Thousands, Unless Noted)

8. Investments and Charitable Perpetual Trusts (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted
Year ended June 30, 2010			
Dividends and interest	$ 530	$ 2,938	$ –
Realized and unrealized losses, net of realized and unrealized gains	5,032	28,562	–
Change in fair value of charitable perpetual trusts	–	–	12,547
Investment return	5,562	31,500	12,547
Investment return designated for current operations (included in endowment and trust income)	(3,078)	(9,151)	–
Investment return designated for art purchase	–	(9,293)	–
Investment return after amounts designated	$ 2,484	$ 13,056	$ 12,547

The Museum's investments and charitable perpetual trusts are exposed to various risks, such as interest rate, market, and credit risks.

9. Endowment

The Museum endowment consists of approximately 340 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original

9. Endowment (continued)

value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment 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
- The investment policies of the Museum

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 7% over the long term. Actual returns in any given year may vary from this amount.

9. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum uses the spending rule concept in making distributions from its investments. In doing so, the Museum takes into account the distributions from the charitable perpetual trusts. The amount of investment income used by the Museum for its operations and purchases of art is calculated using a spending rate of between 4.5% to 5.5% of the market value of the investments for the prior 20-quarter average ended March 31, 2010, for fiscal year ended June 30, 2011, and March 31, 2009, for the fiscal year ended June 30, 2010, as adjusted (subject to certain limitations) for inflation and additional contributions. For fiscal 2011 and 2010, the calculations resulted in an annual spending rate of approximately 5%. Investment returns in excess of (less than) amounts designated for current operations are classified as other changes in net assets in the statements of activities. Accordingly, over the long-term the Museum expects the current spending policy to allow its endowment to grow at an average of 1.5%–2.5% annually. This is consistent with the Museum’s objective to maintain the purchasing power of the endowment assets held in perpetuity.

(In Thousands, Unless Noted)

9. Endowment (continued)

Endowment Net Asset Composition by Type of Fund at June 30

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	**$ –**	**$ 214,336**	**$ 67,543**	**$ 281,879**
Charitable perpetual trusts	**–**	**–**	**290,539**	**290,539**
Board-designated	**102,681**	**–**	**–**	**102,681**
Total endowment	**$ 102,681**	**$ 214,336**	**$ 358,082**	**$ 675,099**

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	$ –	$ 175,627	$ 67,399	$ 243,026
Charitable perpetual trusts	–	–	244,083	244,083
Board-designated	95,620	–	–	95,620
Total endowment	$ 95,620	$ 175,627	$ 311,482	$ 582,729

Changes in endowment net assets for the fiscal year ended June 30, 2011, consisted of the following:

	Unrestricted	**Temporarily Unrestricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 95,620**	**$ 175,627**	**$ 311,482**	**$ 582,729**
Investment return:				
Investment income	**829**	**4,347**	**–**	**5,176**
Net appreciation (realized and unrealized)	**9,120**	**50,892**	**46,456**	**106,468**
Total investment income	**9,949**	**55,239**	**46,456**	**111,644**
Contributions and other changes	**144**	**550**	**144**	**838**
Appropriation of endowment assets for expenditure	**(3,032)**	**(17,080)**	**–**	**(20,112)**
Endowment net assets, end of year	**$ 102,681**	**$ 214,336**	**$ 358,082**	**$ 675,099**

(In Thousands, Unless Noted)

9. Endowment (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2010, consisted of the following:

	Unrestricted	Temporarily Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 95,731	$ 167,002	$ 296,980	$ 559,713
Investment return:				
Investment income	530	2,938	–	3,468
Net appreciation (realized and unrealized)	5,032	28,562	12,547	46,141
Total investment loss	5,562	31,500	12,547	49,609
Contributions and other changes	1,531	67	1,955	3,553
Appropriation of endowment assets for expenditure	(7,204)	(22,942)	–	(30,146)
Endowment net assets, end of year	$ 95,620	$ 175,627	$ 311,482	$ 582,729

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Museum. There are 16 endowment funds considered deficient as of June 30, 2011, totaling approximately $0.4 million.

10. Benefit Plans

The Museum converted from a contributory defined benefit pension plan for eligible employees to a noncontributory defined benefit pension plan (the Pension Plan) on January 1, 2002. Eligible participants in the contributory defined benefit pension plan on December 31, 2001, were given the option of continuing to contribute to this plan until July 1, 2009. For those employees not making this election, their accumulated benefit was converted to the noncontributory defined

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

benefit pension plan. For either contributing or noncontributing participants, benefits under the Pension Plan are based on years of service and the final five-year average compensation. It is the policy of the Museum to fund with an insurance company at least the minimum amounts required by the Employee Retirement Income Security Act of 1974. Pension Plan assets are invested in group annuity contracts.

Effective July 1, 2009, the Museum modified the Pension Plan, eliminating the contributory portion of the plan and the benefit calculation is based on career years of service.

Effective December 31, 2010, the Museum modified the Pension Plan to allow participants meeting certain eligibility requirements to elect to accrue additional benefits in the current defined benefit plan. Those participants not meeting the eligibility requirements cease to accrue additional benefits under the plan. In connection with the modification the Museum recognized a curtailment gain of $1,632 related to previously unrecognized prior service credit. For those participants not meeting eligibility requirements or who elected not to accrue additional benefits in the defined benefit plan, the Museum intends to provide an enhanced contribution to the participant's 401(k) account for employees meeting defined eligibility requirements.

The Museum provides health care benefits upon retirement to certain employees meeting eligibility requirements as of December 31, 2001, and contractually required additions. No other employees are eligible to receive these postretirement health care benefits. The Museum's policy is to fund the annual costs of these benefits from unrestricted net assets of the Museum.

Included in unrestricted net assets at June 30, 2011 and 2010, are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plan		**Other Postretirement**	
	2011	**2010**	**2011**	**2010**
Actuarial loss (gain)	**$ 5,895**	$ 5,707	**$ (176)**	$ (422)
Net prior service (credit)	**(686)**	(2,443)	**(1,191)**	(1,387)
Total unrecognized amounts included in unrestricted net assets	**$ 5,209**	$ 3,264	**$ (1,367)**	$ (1,809)

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

The actuarial loss and prior service (credit) for the Pension Plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are $253 and ($58), respectively. The actuarial gain and prior service (credit) for the postretirement medical plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are $0 and ($196), respectively.

The following table sets forth the actuarial present value of benefit obligations and aggregate funded status of the Pension Plan:

	June 30	
	2011	**2010**
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$ 27,716**	$ 23,718
Service cost	**584**	594
Interest cost	**1,428**	1,435
Actuarial (gain) losses	**(255)**	3,245
Benefits paid	**(1,281)**	(1,281)
Curtailments	**(92)**	–
Participant contributions	**–**	5
Benefit obligation at end of fiscal year	**28,100**	27,716
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**24,450**	22,042
Actual return on plan assets	**882**	3,440
Employer contributions	**555**	244
Benefits paid	**(1,281)**	(1,281)
Participant contributions	**–**	5
Fair value of plan assets at end of fiscal year	**24,606**	24,450
Underfunded status of the plan and accrued pension obligation	**$ (3,494)**	$ (3,266)
Accumulated benefit obligation	**$ 28,004**	$ 27,365

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

Weighted-average assumptions are as follows:

	June 30	
	2011	**2010**
Discount rate – liability	**5.35%**	5.25%
Discount rate – cost	**5.25%**	6.25%
Expected rate of return on plan assets	**7.00%**	7.00%
Compensation growth rate – liability	**3.00%**	3.00%
Compensation growth rate – cost	**3.00%**	3.50%

The assumptions used in the actuarial valuations were established by the Museum in conjunction with its actuary. The expected long-term rate of return on plan assets was established using the Museum's target asset allocation for equity and fixed income securities and the historical average rates of return for equity and fixed income securities adjusted by an assessment of possible future influences that could cause the returns to trail long-term patterns. The weighted-average rates of increase in compensation were established based upon the Museum's long-term internal compensation plans.

	Year Ended June 30	
	2011	**2010**
Components of net periodic benefit cost recognized in the statements of activities:		
Service cost	**$ 584**	$ 594
Interest cost	**1,428**	1,435
Expected return on plan assets	**(1,664)**	(1,508)
Amortization of prior service cost	**(125)**	(192)
Recognized net actuarial loss	**246**	159
Net gain due to curtailment	**(1,632)**	–
	$ (1,163)	$ 488

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

The Pension Plan invests in an unallocated immediate participation guarantee group annuity contract with John Hancock Life Insurance Company (the Insurer), which is considered a Level 3 investment in the fair value hierarchy. The investment balances and related investment results are based on information provided by the Insurer, which considers significant inputs for the unallocated insurance contract including specific terms and contractual provisions outlined in the contract, such as the effective interest rate. The Insurer credits the Pension Plan's deposits that are intended to provide future benefits to present employees to an account that is invested with other assets of the Insurer. The account is credited with its share of the Insurer's actual investment income. The investment in the group annuity contract is designed to grow at a rate consistent with the underlying obligation. The actual asset allocations by asset category are consistent with its targets and are as follows:

	June 30	
	2011	**2010**
Debt securities	**94%**	94%
Equity securities	**2**	2
Real estate	**2**	2
Other	**2**	2
Total	**100%**	100%

The Museum expects to make a contribution of $830 to the Pension Plan in fiscal year 2012. The Museum reserves the right to contribute more or less than this amount but not less than any minimum contribution requirement under the Pension Protection Act (PPA). Benefit payments over the next five fiscal years are estimated as follows:

Years Ending:		
2012	$	1,447
2013		1,522
2014		1,569
2015		1,596
2016		1,645
Five years thereafter		8,936

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

In addition, the Museum sponsors a 401(k) savings plan. The Museum matches employee contributions at a rate of 50% of the first 4% of total compensation. The Museum's contributions to the 401(k) plan were $203 and $168 for the years ended June 30, 2011 and 2010, respectively.

The following information is provided for the Museum's postretirement medical benefits plan:

	June 30	
	2011	**2010**
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$ 2,569**	$ 2,545
Interest cost	**129**	151
Actuarial loss	**228**	110
Benefits paid	**(289)**	(281)
Participant contributions	**44**	44
Benefit obligation at end of fiscal year	**2,681**	2,569
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**–**	–
Participant contributions	**44**	44
Employer contributions	**245**	237
Benefits paid	**(289)**	(281)
Fair value of plan assets at end of fiscal year	**–**	–
Underfunded status of the plan and accrued postretirement medical benefits	**$ (2,681)**	$ (2,569)

Approximately $244 and $237 of the accrued postretirement medical benefit liability is included in accounts payable and accrued expenses on the statements of financial position in 2011 and 2010, respectively.

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

The discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2011 and 2010, was 4.6% and 5.25%, respectively. The discount rate used in determining the net periodic benefit cost was 5.25% and 6.25% at June 30, 2011 and 2010, respectively. The health care cost trend rate used is 8.0% for fiscal year 2011, declining to 5.5% by 2016. A one-percentage-point increase or decrease in the health care cost trend rate would have increased or decreased the fiscal 2011 interest costs in total by $10 and $9, respectively, and would have increased or decreased the accumulated postretirement benefit obligation by $194 and $174, respectively.

	Year Ended June 30	
	2011	**2010**
Components of net periodic benefit credit recognized in the statements of activities:		
Interest cost	**$ 129**	$ 151
Amortization of prior service cost	**(196)**	(196)
Net actuarial gain recognized	**(17)**	(31)
	$ (84)	$ (76)

The benefits expected to be paid in each year for the fiscal years 2012-2016 are $250, $254, $253, $249, and $241, respectively. The anticipated benefits to be paid in the five years from 2017-2021 are $1,055.

11. Financing Arrangements and Long-Term Obligations

Operating Leases

The Museum has an operating lease for office space. Total rental expense for the years ended June 30, 2011 and 2010, was $475 and $430, respectively. Minimum operating lease payments for the next fiscal year are approximately $180. There are no minimum operating lease payments beyond fiscal 2012.

(In Thousands, Unless Noted)

11. Financing Arrangements and Long-Term Obligations (continued)

In fiscal 2007, the Museum entered into a four-year operating lease for warehouse, carpentry, and paint workshop space, with an option for three sequential, additional terms of one year. The Museum exercised two of these three options. Total rental expense for the years ended June 30, 2011 and 2010, was $81 and $80, respectively. Minimum operating lease payments for each of the next two fiscal years are approximately $85.

Cultural Facility Revenue Bonds

Cultural Facility Revenue Bonds consist of the following:

	Interest Rate(s)	Final Fiscal Year Maturity	Amount Outstanding at June 30 2011	Amount Outstanding at June 30 2010
Series 2005	Variable rate	2037-2041	**$ 90,000**	$ 90,000
Series 2010	3.00% to 5.00%	2019-2023	**70,430**	–
			160,430	90,000
Unamortized premium			**5,147**	–
Current portion			**–**	–
			$ 165,577	$ 90,000

Series 2005

In October 2005, pursuant to certain agreements between the Museum and the Cleveland-Cuyahoga Port Authority, the Cleveland-Cuyahoga Port Authority issued $90,000 in variable rate, tax-exempt Cultural Facility Revenue Bonds (The Cleveland Museum of Art Project), Series 2005, payable October 1, 2040 (the 2005 Bonds). The proceeds of the 2005 Bonds were used to finance the Museum’s construction, renovation, and expansion project. The 2005 Bonds were issued in four series: (i) the Series A Bonds in the principal amount of $30,000, (ii) the Series B Bonds in the principal amount of $20,000, (iii) the Series C Bonds in the principal amount of $20,000, and (iv) the Series D Bonds in the principal amount of $20,000. The 2005 Bonds have adjustable methods of interest rate determination and interest payment dates, and were in weekly variable rate mode based on a tax-free LIBOR on June 30, 2011, bearing interest at .07% to .08% (range from .07% to .32% during the year ended June 30, 2011), and on June 30, 2010, bearing interest at 0.26% (range from 0.12% to 0.35% during the year ended June 30, 2010). The interest rate is determined by an external agent.

11. Financing Arrangements and Long-Term Obligations (continued)

The 2005 Bonds are secured by a standby bond purchase agreement, which expires on October 8, 2012. Under the terms of this agreement, in the event of a failed remarketing, the bank will provide liquidity to make payment to the bond holders. Fees incurred related to the remarketing of the bonds were $990 and $933 during the years ended June 30, 2011 and 2010, respectively, and included in general and administrative expense in the statements of activities.

Series 2010

On July 1, 2010, pursuant to certain agreements between the Museum and the Cleveland-Cuyahoga Port Authority, the Cleveland-Cuyahoga Port Authority issued $70,430 in fixed rate, tax-exempt Cultural Facility Revenue Bonds, Series 2010 (The Cleveland Museum of Art Project). The proceeds of the 2010 Bonds will be used to finance the Museum's ongoing construction project. The 2010 Bonds were issued at a premium with varying maturity dates ranging from October 2018 to 2022 and with coupon rates ranging from 3.00% to 5.00%. The proceeds the Museum realized on the bonds totaled $75,917.

While these Cultural Facility Revenue Bonds are not a direct indebtedness of the Museum, the loan agreement with the Cleveland-Cuyahoga Port Authority obligates the Museum to make payments equal to the principal of and premium, if any, and interest on the respective Bonds, whether at maturity, upon acceleration or upon redemption. Bond service charges due on the Bonds will be required to be made by the Museum as loan payments under the agreement. Interest-only payments are required to be made until October 1, 2036 for the Series 2005 Bonds and October 1, 2018 for the Series 2010 Bonds.

The Museum is subject to certain restrictive covenants, including provisions relating to maintaining certain debt ratios and other matters. The Museum was in compliance with these covenants at June 30, 2011.

Unamortized Financing Costs

Unamortized financing costs are amortized over the period the obligation is outstanding using the effective interest method. Included in general and administrative expense on the statements of activities was $126 and $31 of amortization of deferred financing costs during the years ended June 30, 2011 and 2010, respectively. Unamortized financing costs of $1,609 and $860 are included in other long-term assets on the statements of financial position at June 30, 2011 and 2010, respectively.

11. Financing Arrangements and Long-Term Obligations (continued)

Interest Rate Swap

In connection with the 2005 Bonds, the Museum entered into a floating-to-fixed rate swap to manage the risk of increased debt service costs resulting from rising variable interest rates. The swap consists of a $90,000, eight-year floating-to-fixed rate swap whereby the Museum pays a fixed rate of 3.341% and receives 70% of one-month LIBOR. The notional amount of the swap will decline until maturity on January 1, 2014. The notional value of the swap was $26,500 and $43,500 at June 30, 2011 and 2010, respectively. This derivative instrument is not designated as a hedging instrument. At June 30, 2011 and 2010, the fair value of the swap agreement as of the close of business that day, was $(810) and $(1,591), respectively, owed to the counterparty and has been recorded in other liabilities on the statements of financial position. The change in fair value of the swap agreement is recorded in other changes in net assets on the statements of activities. Net interest cost incurred under the swap agreement was $883 and $1,522 for fiscal 2011 and 2010, respectively, and is included in general and administrative expense on the statements of activities.

In December 2009, the Museum entered into a floating-to-fixed rate swap to hedge the unhedged principal amount of the 2005 Bonds, due to the declining notional amount of the previous swap. The effective date of the swap was January 3, 2011, with an initial notional amount of $63,500, increasing to $90,000 on January 2, 2014, when the original swap matures. The swap matures on January 1, 2021, and consists of a floating-to-fixed rate swap whereby the Museum pays a fixed rate of 2.8623% and receives 70% of one-month LIBOR. This derivative instrument is not designated as a hedging instrument. At June 30, 2011 and 2010, the fair value of the swap agreement as of the close of business that day, was $(4,656) and $(4,442), respectively, owed to the counterparty and has been recorded in other liabilities on the statements of financial position. The change in fair value of the swap agreement is recorded in other changes in net assets on the statements of activities. Net interest cost incurred under the swap agreement was $846 for fiscal 2011 and is included in general and administrative expense on the statement of activities.

11. Financing Arrangements and Long-Term Obligations (continued)

Interest

Interest paid on the 2005 Bonds was approximately $208 and $215 in fiscal years 2011 and 2010, respectively, and is included in general and administrative expense on the statements of activities. Interest paid on the 2010 Bonds was approximately $2,366 and was capitalized for fiscal 2011.

Lines of Credit

During fiscal 2010, the Museum entered into two lines of credit with two financial institutions totaling $40,000. The lines are intended to meet the short-term financing needs of the Museum. There were no amounts borrowed on the lines during 2011 and no amounts outstanding as of June 30, 2011 or 2010. Further, one of the lines totaling $20,000 expired during August 2011, subsequent to year-end, and was not renewed.

12. Income Taxes

The Museum is a nonprofit organization and is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. There were no amounts recorded for uncertain tax positions as of June 30, 2011 and 2010.

13. Subsequent Events

The Museum has evaluated subsequent events through November 23, 2011, the date the financial statements were issued.

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