

FINANCIAL STATEMENTS

The Cleveland Museum of Art  
Years Ended June 30, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



The Cleveland Museum of Art

Financial Statements

Years Ended June 30, 2021 and 2020

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## Report of Independent Auditors

The Board of Trustees  
The Cleveland Museum of Art

We have audited the accompanying financial statements of The Cleveland Museum of Art, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cleveland Museum of Art at June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

November 19, 2021

The Cleveland Museum of Art

Statements of Financial Position  
(In Thousands)

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,302	\$ 7,449
Investments for current use	2,854	46,255
Accounts receivable	35	12
Inventories	797	1,040
Other current assets	1,985	2,434
Total current assets	<u>16,973</u>	<u>57,190</u>
Investments:		
Endowment investments	599,381	457,954
Other investments	11,153	5,961
Buildings and equipment:		
Buildings and improvements	393,299	392,216
Equipment	32,145	31,004
Construction-in-progress	4,184	7,913
	<u>429,628</u>	<u>431,133</u>
Less accumulated depreciation	155,601	144,905
Total buildings and equipment – net	<u>274,027</u>	<u>286,228</u>
Other assets:		
Charitable perpetual trusts	405,664	315,011
Pledges receivable	11,465	12,795
Other	425	425
	<u>417,554</u>	<u>328,231</u>
Total assets	<u><u>\$ 1,319,088</u></u>	<u><u>\$ 1,135,564</u></u>

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,070	\$ 4,632
Deferred revenue	2,470	1,226
Current portion of long-term debt	–	42,255
Other current liabilities	203	5,872
Total current liabilities	<u>6,743</u>	<u>53,985</u>
Long-term debt	89,650	90,000
Other liabilities:		
Accrued postretirement medical benefits	166	376
Accrued pension obligation	8,965	16,243
Other	11,020	15,331
	<u>20,151</u>	<u>31,950</u>
Total liabilities	<u>116,544</u>	<u>175,935</u>
Net assets:		
Without donor restrictions	294,623	269,921
With donor restrictions	907,921	689,708
Total net assets	<u>1,202,544</u>	<u>959,629</u>
Total liabilities and net assets	<u><u>\$ 1,319,088</u></u>	<u><u>\$ 1,135,564</u></u>

*See accompanying notes.*

# The Cleveland Museum of Art

## Statement of Activities (In Thousands)

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and support</b>			
Endowment and trust income	\$ 10,768	\$ 12,145	\$ 22,913
Contributions and membership	8,406	–	8,406
Gifts, grants, and other revenue for special exhibitions	865	6	871
Program revenues and other support	6,718	5,687	12,405
Stores, café, parking, and products	959	–	959
Net assets released from restrictions used for operations	12,429	(12,429)	–
Total revenues and support	40,145	5,409	45,554
<b>Expenses</b>			
Curatorial, conservation, and registrar	10,803	–	10,803
Special exhibitions	1,287	–	1,287
Education, library, and community programs	2,301	–	2,301
Marketing and communications	1,080	–	1,080
Development and membership services	3,836	–	3,836
General and administrative	6,843	–	6,843
Building, facilities, and security	8,577	–	8,577
Stores, café, parking, and products	1,080	–	1,080
Depreciation	2,185	–	2,185
Total expenses	37,992	–	37,992
Excess of revenues and support over expenses before other	2,153	5,409	7,562
<b>Other</b>			
Depreciation on building expansion project	(12,092)	–	(12,092)
Interest expense	(2,854)	–	(2,854)
Net periodic benefit cost other than service cost	(851)	–	(851)
Trust revenue designated for art purchases	–	5,601	5,601
Investment return designated for art purchases	–	7,426	7,426
Net assets released from restrictions used to fund debt service of building project	4,350	(4,350)	–
Net assets released from restrictions used to fund acquisition of art objects	8,866	(8,866)	–
Expenditures for acquisition of art objects	(7,981)	–	(7,981)
Gifts and contributions	–	7,081	7,081
Investment return after amounts designated	20,747	115,259	136,006
Change in fair value of derivative instruments	5,841	–	5,841
Change in fair value of charitable perpetual trusts	–	90,653	90,653
Changes in funded status of pension benefits	2,265	–	2,265
Changes in funded status of postretirement medical benefits	84	–	84
Gain on forgivable PPP loan	4,174	–	4,174
Increase in net assets	24,702	218,213	242,915
Net assets at beginning of year	269,921	689,708	959,629
Net assets at end of year	\$ 294,623	\$ 907,921	\$ 1,202,544

See accompanying notes.

# The Cleveland Museum of Art

## Statement of Activities (In Thousands)

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and support</b>			
Endowment and trust income	\$ 13,404	\$ 10,450	\$ 23,854
Contributions and membership	7,029	–	7,029
Gifts, grants, and other revenue for special exhibitions	1,407	–	1,407
Program revenues and other support	6,846	3,113	9,959
Stores, café, parking, and products	1,720	–	1,720
Net assets released from restrictions used for operations	12,797	(12,797)	–
Total revenues and support	43,203	766	43,969
<b>Expenses</b>			
Curatorial, conservation, and registrar	11,088	–	11,088
Special exhibitions	2,956	–	2,956
Education, library, and community programs	2,974	–	2,974
Marketing and communications	1,177	–	1,177
Development and membership services	4,542	–	4,542
General and administrative	6,402	–	6,402
Building, facilities, and security	8,245	–	8,245
Stores, café, parking, and products	1,391	–	1,391
Depreciation	2,120	–	2,120
Total expenses	40,895	–	40,895
Excess of revenues and support over expenses before other	2,308	766	3,074
<b>Other</b>			
Depreciation on building expansion project	(8,496)	–	(8,496)
Interest expense	(4,950)	–	(4,950)
Net periodic benefit cost other than service cost	(906)	–	(906)
Trust revenue designated for art purchases	–	5,670	5,670
Investment return designated for art purchase	–	5,680	5,680
Net assets released from restrictions used to fund debt service of building project	4,350	(4,350)	–
Net assets released from restrictions used to fund acquisition of art objects	7,792	(7,792)	–
Expenditures for acquisition of art objects	(8,531)	–	(8,531)
Gifts and contributions	–	5,027	5,027
Investment return after amounts designated	(2,788)	(12,798)	(15,586)
Change in fair value of derivative instruments	(7,694)	–	(7,694)
Change in fair value of charitable perpetual trusts	–	(13,313)	(13,313)
Changes in funded status of pension benefits	(3,144)	–	(3,144)
Changes in funded status of postretirement medical benefits	(194)	–	(194)
Decrease in net assets	(22,253)	(21,110)	(43,363)
Net assets at beginning of year	292,174	710,818	1,002,992
Net assets at end of year	\$ 269,921	\$ 689,708	\$ 959,629

See accompanying notes.



# The Cleveland Museum of Art

## Statements of Cash Flows (In Thousands)

	Year Ended June 30	
	2021	2020
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 242,915	\$ (43,363)
Adjustments to reconcile increase (decrease) in net assets to cash (used in) provided by operating activities:		
Depreciation	14,277	10,616
Net accretion of bond premiums and financing costs	(350)	(244)
Change in fair value of derivative instruments	(5,841)	7,694
Net realized and unrealized (gains) losses on long-term investments	(154,997)	2,121
Contributions restricted for long-term purposes	(6,560)	(1,150)
(Increase) decrease in fair value of charitable perpetual trusts	(90,653)	13,313
Acquisition of art objects, net	7,949	8,504
Changes in funded status of pension and postretirement medical benefits	(2,349)	3,338
Gain on forgivable PPP loan	(4,174)	-
Changes in operating assets and liabilities:		
Accounts receivable	(23)	193
Inventories and other current assets	692	206
Pledges receivable	1,330	3,269
Accounts payable and accrued expenses	(562)	(492)
Deferred revenue	1,244	(50)
Other current liabilities	(1,495)	21
Other liabilities	(3,609)	331
Net cash (used in) provided by operating activities	<u>(2,206)</u>	4,307
<b>Investing activities</b>		
Purchases of buildings and equipment	(2,076)	(5,195)
Acquisition of art objects	(7,981)	(8,519)
Proceeds from the deaccession of art	32	27
Proceeds from sales and maturities of investments	203,313	126,919
Purchases of investments	(151,534)	(108,959)
Net cash provided by investing activities	<u>41,754</u>	4,273
<b>Financing activities</b>		
Repayment of debt	(42,255)	(14,085)
Contributions restricted for long-term purposes	6,560	1,150
Proceeds from forgivable PPP loan	-	4,174
Net cash used in financing activities	<u>(35,695)</u>	(8,761)
Net increase (decrease) in cash and cash equivalents	3,853	(181)
Cash and cash equivalents at beginning of year	7,449	7,630
Cash and cash equivalents at end of year	<u>\$ 11,302</u>	<u>\$ 7,449</u>

See accompanying notes.

# The Cleveland Museum of Art

## Notes to Financial Statements *(In Thousands, Unless Noted)*

June 30, 2021 and 2020

### **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**

#### **Novel Coronavirus Disease Pandemic**

In March 2020, the World Health Organization designated the novel coronavirus disease (COVID-19) outbreak as a global pandemic. The Museum experienced and responded to significant operational challenges related to the COVID-19 pandemic during the last two quarters of the fiscal year ended June 30, 2020. Many of the challenges due to the pandemic continued through the fiscal year ended June 30, 2021, although they have abated as compared to prior year.

On April 13, 2020, the Museum received loan proceeds in the amount of \$4,174 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), was implemented by the Small Business Administration, with support from the U.S. Department of the Treasury. The Museum applied debt accounting guidance and reflected the proceeds in other current liabilities at June 30, 2020. In fiscal 2021, the Museum received notification of the forgiveness of the PPP loan in its entirety, which is recognized as a gain on forgivable PPP loan in other changes in net assets for the year ended June 30, 2021.

#### **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.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

### **2. Significant Accounting Policies (continued)**

#### **Net Assets**

Generally accepted accounting principles require that resources be classified for reporting purposes into two categories based upon the presence or absence of donor restrictions – with donor restrictions or without donor restrictions. Net assets without donor restrictions represent resources available for the general support of the Museum’s activities and may be designated by the Museum’s Board of Trustees for specific purposes. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Museum and donor-restricted endowment funds. As restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

The Museum receives regular distributions of income as a beneficiary of several charitable perpetual trusts. These trust assets are classified as with donor restrictions, since they are not controlled by the Museum and are held in perpetuity. The Museum records its interest in charitable perpetual trusts at its pro rata share of the fair value of the underlying assets. Income distributed to the Museum by the trusts of \$14,938 and \$14,410 in fiscal 2021 and 2020, respectively, is included in endowment and trust income and trust revenue designated for art purchase on the statements of activities.

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 and debt service costs associated with the expansion project completed by the Museum in 2014. The total appropriated is not to exceed \$75,000. During fiscal 2021 and 2020, the Museum appropriated \$4,350, respectively, for said purpose from the 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.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

### **2. Significant Accounting Policies (continued)**

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 net assets with donor restrictions and are restricted to the acquisition of other art objects. On April 10, 2020, in response to the COVID-19 pandemic, the Art Museums of the Association of Art Museum Directors (AAMD) passed a temporary resolution, stating that it would not censure an art museum for using proceeds from the disposition of deaccessioned work not only for acquisition, but for direct care as well. The temporary resolution is in effect for two years and ends on April 10, 2022. The Museum has adopted the temporary resolution until April 10, 2022. For this interim policy, direct care includes expenditures that provide a direct benefit to the existing collection that enhance or prolong their life, usefulness or quality, thereby insuring that current and future generations of the public will continue to benefit from them. During fiscal 2021 and 2020, the Museum used funds from deaccessioning of \$1,400 and \$0, respectively, to support the direct care of the collection.

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. Art purchases included in accounts payable and accrued expenses and thus not presented in the statements of cash flows are \$0 and \$12 for the years ended June 30, 2021 and 2020, respectively.

### **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.

### **Inventories**

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

### **Investments and Investment Income**

Endowment investments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

### **2. Significant Accounting Policies (continued)**

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 cost 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 asset class, based upon the absence or presence of a restriction on the underlying asset (Note 7).

#### **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.

#### **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 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. Contributions and pledges received with donor restrictions that limit use are reported as with donor restricted contributions and membership, or other gifts and contributions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) (In Thousands, Unless Noted)

### 2. Significant Accounting Policies (continued)

#### 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.

#### 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 as other in the statements of activities in the period of change.

#### Accounting Pronouncements Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates the requirement for entities to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. It also modifies certain disclosure requirements for nonpublic entities to make them less burdensome. ASU 2018-13 is effective for all entities for annual reporting periods beginning after December 15, 2019. The Museum adopted ASU 2018-13 on July 1, 2020. The Museum included the required disclosures of ASU 2018-13 in the notes to the financial statements.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*. This ASU improves the definition of collections by realigning it with the definition in the American Alliance of Museums' *Code of Ethics for Museums*. It also requires the collection-holding entity to disclose its policy for the use of proceeds from when collection items are deaccessioned. ASU 2019-03 is effective for all entities for annual reporting periods beginning after December 15, 2019. The Museum adopted ASU 2019-03 on July 1, 2020. The Museum included the required disclosures of ASU 2019-03 in the notes to the financial statements.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) (In Thousands, Unless Noted)

### 2. Significant Accounting Policies (continued)

#### Accounting Pronouncement Not Yet Adopted

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. The Museum is currently assessing the impact that ASU 2020-07 will have on its financial statements and will adopt the provisions upon the effective date.

### 3. Pledges Receivable

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Pledges due:		
In less than one year	\$ 778	\$ 863
In one to five years	5,425	5,936
Greater than five years	8,550	9,500
	<u>14,753</u>	<u>16,299</u>
Present value discount on pledges (1.60%–2.20% discount rate)	<u>(3,288)</u>	<u>(3,504)</u>
	<u>\$ 11,465</u>	<u>\$ 12,795</u>

The Cleveland Museum of Art

Notes to Financial Statements (continued)

(In Thousands, Unless Noted)

**4. Net Assets With Donor Restrictions**

Net assets with donor restrictions are available for the following purposes:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Acquisition of art	\$ 400,914	\$ 314,597
Specific operating activities:		
Curatorial and conservation	47,587	35,894
Education, library, and community programs	32,973	26,110
Buildings, grounds, and protection services	17,041	7,390
General operating and other	409,406	305,717
Total net assets with donor restrictions	<u>\$ 907,921</u>	<u>\$ 689,708</u>

**5. Net Assets Released From Restrictions**

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

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Acquisition of art	<u>\$ 8,866</u>	<u>\$ 7,792</u>
Debt service on building project	<u>\$ 4,350</u>	<u>\$ 4,350</u>
Specific operating activities:		
Curatorial and conservation	\$ 2,588	\$ 1,332
Education, library, and community programs	1,596	1,091
Buildings, grounds, and protection services	4,794	8,569
General operating and other	3,451	1,805
Net assets released from restrictions used for operations	<u>\$ 12,429</u>	<u>\$ 12,797</u>



## The Cleveland Museum of Art

### Notes to Financial Statements (continued)

*(In Thousands, Unless Noted)*

#### **6. Fair Value Measurements**

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, 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 valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation 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.

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) (In Thousands, Unless Noted)

#### 6. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value at June 30, 2021 and 2020, by the ASC 820 valuation hierarchy defined above:

	2021			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments for current use:				
Money market funds	\$ 2,854	\$ 2,854	\$ —	\$ —
Total investments for current use	2,854	2,854	—	—
Endowment investments:				
Money market funds	36,446	36,446	—	—
Equities:				
Common stocks, primarily U.S.	40,141	40,141	—	—
Collective equity funds*	140,306	—	—	—
Equity mutual funds	164,010	164,010	—	—
Fixed income mutual fund	10,097	10,097	—	—
American depository receipts	7,381	7,381	—	—
Fixed income securities:				
Corporate bonds	18,398	—	18,398	—
Asset-backed securities	2,287	—	2,287	—
Mortgage-backed securities	7,462	—	7,462	—
U.S. treasuries	9,483	9,483	—	—
Government bonds	1,480	—	1,480	—
Alternative investments:				
Absolute return*	22,808	—	—	—
Private equity*	98,842	—	—	—
Hedged equity*	40,240	—	—	—
Total endowment investments	599,381	267,558	29,627	—
Other investments:				
Money market funds	11,153	11,153	—	—
Total other investments	11,153	11,153	—	—
Charitable perpetual trusts	405,664	—	—	405,664
Total assets at fair value	<u>\$ 1,019,052</u>	<u>\$ 281,565</u>	<u>\$ 29,627</u>	<u>\$ 405,664</u>
<b>Liabilities</b>				
Interest rate swap				
Total liabilities at fair value	<u>\$ 8,318</u>	<u>\$ —</u>	<u>\$ 8,318</u>	<u>\$ —</u>

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) (In Thousands, Unless Noted)

#### 6. Fair Value Measurements (continued)

	2020			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments for current use:				
Money market funds	\$ 11,293	\$ 11,293	\$ —	\$ —
Corporate bonds	34,962	—	34,962	—
Total investments for current use	46,255	11,293	34,962	—
Endowment investments:				
Money market funds	19,272	19,272	—	—
Equities:				
Common stocks, primarily U.S.	27,997	27,997	—	—
Collective equity funds*	118,167	—	—	—
Equity mutual funds	137,610	137,610	—	—
Fixed income mutual fund	9,966	9,966	—	—
American depository receipts	5,951	5,951	—	—
Fixed income securities:				
Corporate bonds	28,578	—	28,578	—
Asset-backed securities	3,791	—	3,791	—
Mortgage-backed securities	7,165	—	7,165	—
Government bonds	1,483	—	1,483	—
Alternative investments:				
Absolute return*	19,367	—	—	—
Private equity*	58,149	—	—	—
Hedged equity*	20,458	—	—	—
Total endowment investments	457,954	200,796	41,017	—
Other investments:				
Corporate bonds	5,961	—	5,961	—
Total other investments	5,961	—	5,961	—
Charitable perpetual trusts	315,011	—	—	315,011
Total assets at fair value	<u>\$ 825,181</u>	<u>\$ 212,089</u>	<u>\$ 81,940</u>	<u>\$ 315,011</u>
<b>Liabilities</b>				
Interest rate swap				
Total liabilities at fair value	\$ 14,159	\$ —	\$ 14,159	\$ —
	<u>\$ 14,159</u>	<u>\$ —</u>	<u>\$ 14,159</u>	<u>\$ —</u>

\* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value at the end of the year.

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

#### **6. Fair Value Measurements (continued)**

The following is a description of the Museum's valuation methodologies for assets and liabilities measured at fair value.

Equities, including publicly traded common stocks of both U.S. and international corporations, mutual funds, American depository receipts, and U.S. treasuries are liquid securities that are traded on many of the world's major exchanges and include large-, mid-, and small-capitalization securities.

Collective equity funds include the Museum's interest in non-publicly traded, liquid commingled funds which are recorded at net asset value (NAV). The investment objective for collective equity funds is long-term total return equal to or better than market returns.

Fixed income securities, including debt obligations of U.S. corporations and other fixed income instruments, such as asset-backed and mortgage-backed securities, are valued using evaluated prices based on observable inputs, such as available trade information, spreads, bids and offers, prepayment speeds, U.S. Treasury curves and interest rate movements.

The Museum is the sole income beneficiary of several charitable perpetual trusts and a partial income beneficiary of other charitable perpetual trusts. The charitable perpetual trusts are presented based on the Museum's percentage of ownership of the underlying trust's net assets. The underlying net assets of the charitable perpetual trusts are composed of cash equivalents, equities, fixed income securities, and alternative investments. Since the Museum has no rights to the underlying investments, the charitable perpetual trusts have been classified as Level 3.

Alternative investments (principally limited partnership interests in absolute return, private and hedged equity) represent the Museum's ownership interest in the NAV of the respective partnership as a practical expedient. 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 limited partnerships 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

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

#### **6. Fair Value Measurements (continued)**

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, 2021, the Museum is committed to invest an additional \$41,696 in alternative investments. However, it is uncertain as to the timing of additional contributions.

Alternative investments are diversified across various strategies and may consist of absolute return funds, private equity, long/short funds, and other opportunistic funds. The underlying investments in such funds may include publicly traded and privately held equity and debt instruments issued by U.S. and international corporations, as well as various derivatives based on these securities. Private equity investments generally consist of limited partnerships formed to invest in illiquid equity and debt securities of operating companies that are not publicly traded and public companies. The investment objective is long-term capital appreciation in excess of what is available in the public markets. This asset class includes venture capital, secondary, mezzanine, buyout, and distressed funds.

The investment objective for absolute return funds is long-term capital appreciation with less volatile and/or uncorrelated returns. Absolute return funds include investment strategies where a majority of the underlying securities may or may not be traded on public exchanges. This asset class includes a variety of active strategies, including arbitrage, event-driven, market neutral, long-short equity and distressed investing.

The investment objective for hedged equity is long-term capital appreciation with low volatility. Hedged equity funds include investment strategies where the majority of the underlying securities are traded on public exchanges. Managers in this asset class may hold long or short equity positions and utilize options, futures, and other derivatives.

The fair value of the interest rate swaps was determined based on the present value of expected future cash flows using discount rates appropriate with risks involved and adjusted for a credit adjustment to reflect non-performance risk.

The Cleveland Museum of Art

Notes to Financial Statements (continued)

(In Thousands, Unless Noted)

**6. Fair Value Measurements (continued)**

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.

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

	<b>Charitable Perpetual Trusts</b>
	<u>                    </u>
Fair value at July 1, 2019	\$ 328,324
Net unrealized losses	<u>(13,313)</u>
Fair value at June 30, 2020	315,011
Net unrealized gains	<u>90,653</u>
Fair value at June 30, 2021	<u><u>\$ 405,664</u></u>

At June 30, 2021, the Museum's alternative investments within endowment investments are subject to various liquidity restrictions, as follows:

Available for redemption:	
Quarterly	\$ 22,808
Annual	<u>18,605</u>
	41,413
Subject to distribution of fund	98,842
Subject to remaining lock-up provisions:	
More than one year	<u>21,635</u>
Total alternatives	<u><u>\$ 161,890</u></u>

## The Cleveland Museum of Art

### Notes to Financial Statements (continued)

*(In Thousands, Unless Noted)*

#### **6. Fair Value Measurements (continued)**

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

Investments subject to distribution cannot be redeemed by the Museum, but rather will be distributed by the investment fund or limited partnership upon the liquidation of the underlying assets of the fund or limited partnership. Distributions are generally expected, but not guaranteed. The Museum expects to receive distributions of \$39,410 within one to five years, \$43,743 within five to ten years, and \$15,689 after ten years.

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 quarterly, or a bi-annual redemption basis, subject to the terms of the investment agreement.

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 was paid off in October 2020. At June 30, 2020, the carrying value and the fair value were \$42,255 and \$42,692, respectively.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**7. Investments and Investment Income**

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>
<b>Year ended June 30, 2021</b>		
Dividends and interest	\$ 533	\$ 2,279
Realized and unrealized gains, net of realized and unrealized losses	<u>22,811</u>	<u>132,186</u>
Investment return	23,344	134,465
Investment return designated for current operations (included in endowment and trust income)	(2,597)	(11,780)
Investment return designated for art purchase	–	(7,426)
Investment return after amounts designated	<u>\$ 20,747</u>	<u>\$ 115,259</u>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>
<b>Year ended June 30, 2020</b>		
Dividends and interest	\$ 2,120	\$ 6,093
Realized and unrealized losses, net of realized and unrealized losses	<u>(671)</u>	<u>(2,187)</u>
Investment return	1,449	3,906
Investment return designated for current operations (included in endowment and trust income)	(4,237)	(11,024)
Investment return designated for art purchase	–	(5,680)
Investment return after amounts designated	<u>\$ (2,788)</u>	<u>\$ (12,798)</u>

Investment return is net of investment-related expenses of \$2,175 and \$1,910 for the years ended June 30, 2021 and 2020, respectively. The Museum's investments and charitable perpetual trusts are exposed to various risks, such as interest rate, market, and credit risks.



# The Cleveland Museum of Art

## Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

### **8. Endowment**

On February 3, 2012, the Museum and the John Huntington Art and Polytechnic Trust (Trust), referred to collectively as the Members, entered into an operating agreement with CleveHunt LLC (the Company), an Ohio limited liability company. The Company was formed for the objective and purpose of investing certain property of the Company. The investments of the Company are directed by an investment committee, consisting of the members of the Museum's Investment Committee and the Trustees of the Trust.

Initial contributions to the Company consisted of substantially all of the Museum's endowment assets and all of the assets of the Trust. In exchange for these contributions, the Museum and Trust received a 73.77% and 26.23% ownership share in the Company, respectively. The contributed assets are unitized and profits and losses, including income, are allocated according to the proportion of the Members' percentage interest. Capital contributions and withdrawals adjust the Members' percentage interest. As the Museum has a controlling interest in the Company, the Museum has included all of the net assets and changes in net assets in its financial statements in either investments (including realized and unrealized gains and losses on investments) for the Museum's ownership share of the Company or charitable perpetual trusts and related changes for the Trust's ownership share in the Company. The Museum has not reported a noncontrolling interest for the Trust's ownership share in the Company, as the Museum continues to be the sole beneficiary of the Trust.

At June 30, 2021, the total net assets of the Company were \$761,670. Based on the Museum's ownership percentage at June 30, 2021 of 76.85%, the Museum's share of the net assets amounted to \$585,324 and are included in endowment investments in the Museum's statement of financial position. The Trust's share of the Company's net assets of \$176,346 at June 30, 2021 are included in charitable perpetual trusts in the Museum's statement of financial position. At June 30, 2020, the total net assets of the Company were \$580,343. Based on the Museum's ownership percentage at June 30, 2020 of 76.79%, the Museum's share of the net assets amounted to \$445,654 and are included in endowment investments in the Museum's statement of financial position. The Trust's share of the Company's net assets of \$134,689 at June 30, 2020 are included in charitable perpetual trusts in the Museum's statement of financial position.

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.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

### **8. Endowment (continued)**

#### **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 net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original 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. Net assets with donor restrictions remain under restriction 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 effects 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.

# The Cleveland Museum of Art

## Notes to Financial Statements (continued)

*(In Thousands, Unless Noted)*

### **8. 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, 2020 and 2019 for the fiscal years ended June 30, 2021 and 2020, as adjusted (subject to certain limitations) for inflation and additional contributions. For fiscal 2021 and 2020, the calculations resulted in an annual spending rate of approximately 5.0%. Investment returns in excess of (less than) amounts designated for current operations are classified as other 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% to 2.5% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
(In Thousands, Unless Noted)

**8. Endowment (continued)**

**Endowment Net Asset Composition by Type of Fund at June 30**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2021</b>			
Donor-restricted	\$ —	\$ 475,461	\$ 475,461
Charitable perpetual trusts	—	405,664	405,664
Board-designated	123,920	—	123,920
Total endowment	<u>\$ 123,920</u>	<u>\$ 881,125</u>	<u>\$ 1,005,045</u>
<b>2020</b>			
Donor-restricted	\$ —	\$ 354,640	\$ 354,640
Charitable perpetual trusts	—	315,011	315,011
Board-designated	103,314	—	103,314
Total endowment	<u>\$ 103,314</u>	<u>\$ 669,651</u>	<u>\$ 772,965</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021 consisted of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 103,314	\$ 669,651	\$ 772,965
Investment return:			
Net investment income	392	2,279	2,671
Net appreciation (realized and unrealized)	22,811	222,730	245,541
Total investment income	23,203	225,009	248,212
Contributions		6,560	6,560
Appropriation of endowment assets for expenditure	(2,597)	(20,095)	(22,692)
Endowment net assets, end of year	<u>\$ 123,920</u>	<u>\$ 881,125</u>	<u>\$ 1,005,045</u>

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**8. Endowment (continued)**

Changes in endowment net assets for the fiscal year ended June 30, 2020 consisted of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 107,058	\$ 690,367	\$ 797,425
Investment return:			
Net investment income	779	4,504	5,283
Net depreciation (realized and unrealized)	(393)	(15,041)	(15,434)
Total investment income	386	(10,537)	(10,151)
Contributions	107	5,763	5,870
Appropriation of endowment assets for expenditure	(4,237)	(15,942)	(20,179)
Endowment net assets, end of year	<u>\$ 103,314</u>	<u>\$ 669,651</u>	<u>\$ 772,965</u>

**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 restricted contributions and continued appropriation for certain programs that was deemed prudent by the Museum. There was one endowment fund considered deficient as of June 30, 2021, with a deficiency of \$29. As of June 30, 2020, there were twenty-one endowment funds considered deficient, with deficiencies totaling \$359.

## The Cleveland Museum of Art

### Notes to Financial Statements (continued)

*(In Thousands, Unless Noted)*

#### **9. 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 Pension Plan. For either contributing or noncontributing participants, benefits under the Pension Plan were 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 Pension 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 ceased to accrue additional benefits under the defined benefit plan. For those participants not meeting eligibility requirements or who elected not to accrue additional benefits in the defined benefit plan, the Museum provides an enhanced contribution to the participant's 401(k) account for employees meeting defined eligibility requirements. In fiscal 2021, the Museum offered a voluntary exit incentive program which triggered a curtailment event.

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 net assets without donor restrictions.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**9. Benefit Plans (continued)**

Included in net assets without donor restrictions at June 30, 2021 and 2020 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>Pension Plan</b>		<b>Other Postretirement</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Actuarial loss (gain)	\$ 15,938	\$ 18,274	\$ (1,017)	\$ (927)
Net prior service credit	(89)	(160)	(28)	(34)
Total unrecognized amounts included in net assets without donor restrictions	<u>\$ 15,849</u>	<u>\$ 18,114</u>	<u>\$ (1,045)</u>	<u>\$ (961)</u>

Changes in plan assets and benefit obligations, recognized in net assets without donor restrictions for the years ended June 30, 2021 and 2020, are as follows:

	<b>Pension Plan</b>		<b>Other Postretirement</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net loss (gain)	\$ (516)	\$ 4,253	\$ (219)	\$ 46
Curtailments	(359)			
Amortization	(1,390)	(1,109)	135	148
Total recognized amounts in net assets without donor restrictions	<u>\$ (2,265)</u>	<u>\$ 3,144</u>	<u>\$ (84)</u>	<u>\$ 194</u>

The estimated net loss and prior service cost for the Pension Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$1,185 and \$(51), respectively. The estimated net gain and prior service cost for the other postretirement plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$150 and \$5, respectively.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
(In Thousands, Unless Noted)

**9. Benefit Plans (continued)**

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	\$ 48,639	\$ 43,314
Service cost	403	414
Interest cost	1,190	1,418
Actuarial (gain) loss	(967)	5,433
Benefits paid	(2,175)	(1,940)
Curtailments	(372)	—
Benefit obligation at end of fiscal year	<u>46,718</u>	<u>48,639</u>
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	32,396	30,215
Actual return on plan assets	1,138	2,664
Employer contributions	6,394	1,457
Benefits paid	(2,175)	(1,940)
Fair value of plan assets at end of fiscal year	<u>37,753</u>	<u>32,396</u>
Underfunded status of the plan and accrued pension obligation	<u>\$ (8,965)</u>	<u>\$ (16,243)</u>
Accumulated benefit obligation	<u>\$ 46,429</u>	<u>\$ 48,251</u>

Weighted-average assumptions for the Pension Plan are as follows:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Discount rate – liability	2.65%	2.50%
Discount rate – cost	2.50	3.35
Expected rate of return on plan assets	5.00	5.00
Compensation growth rate – liability	3.00	2.78
Compensation growth rate – cost	2.78	3.00



The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**9. Benefit Plans (continued)**

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.

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Components of net periodic benefit cost recognized in the statements of activities:		
Service cost	\$ 403	\$ 414
Interest cost	1,190	1,418
Expected return on plan assets	(1,589)	(1,484)
Amortization of prior service cost	(58)	(58)
Recognized net actuarial loss	1,448	1,167
Curtailement gain	(12)	—
	<u>\$ 1,382</u>	<u>\$ 1,457</u>

The service cost component of net periodic benefit cost is included as salaries and benefits in the applicable expense caption on the statements of activities. The components of net periodic benefit cost other than service cost are included in other on the statements of activities.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**9. Benefit Plans (continued)**

Substantially all pension plan assets are invested in an unallocated immediate participation guarantee group annuity contract with John Hancock Life Insurance Company (the Insurer) as of June 30, 2021 and 2020, which is considered a Level 3 investment in the fair value hierarchy. The pension plan assets are presented based on the Museum's percentage of ownership of the underlying trust's net assets. 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:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Debt securities	<b>99%</b>	99%
Equity securities	<b>1</b>	1
Total	<b>100%</b>	100%

The Museum expects to make a contribution of \$1,215 to the Pension Plan in fiscal year 2022. 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 and thereafter are estimated as follows:

Years ending:	
2022	\$ 2,284
2023	2,365
2024	2,405
2025	2,460
2026	2,507
Five years thereafter	12,772

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**9. 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 \$271 and \$277 for the years ended June 30, 2021 and 2020, respectively.

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	\$ 415	\$ 390
Interest cost	7	11
Actuarial (gain) loss	(219)	46
Benefits paid	(71)	(84)
Participant contributions	47	52
Benefit obligation at end of fiscal year	<u>179</u>	<u>415</u>
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	-	-
Participant contributions	47	52
Employer contributions	24	32
Benefits paid	(71)	(84)
Fair value of plan assets at end of fiscal year	<u>-</u>	<u>-</u>
Underfunded status of the plan and accrued postretirement medical benefits	<u>\$ (179)</u>	<u>\$ (415)</u>

\$13 and \$39 of the accrued postretirement medical benefit liability are included in accounts payable and accrued expenses on the statements of financial position as of June 30, 2021 and 2020, respectively.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**9. Benefit Plans (continued)**

The discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2021 and 2020 was 2.10% and 1.85%, respectively. The discount rate used in determining the net periodic benefit cost was 1.85% and 3.00% at June 30, 2021 and 2020, respectively. The health care cost trend rate used is 5.74% for fiscal year 2021, declining to 4.81% by 2061. A one-percentage-point increase in the health care cost trend rate would have increased the fiscal 2021 and 2020 interest costs in total by \$0 and \$1, respectively, and would have increased the accumulated postretirement benefit obligation by \$23 and \$40, respectively. A one-percentage-point decrease in the health care cost trend rate would have decreased the fiscal 2021 and 2020 interest costs in total by \$0 and \$1, respectively, and would have decreased the accumulated postretirement benefit obligation by \$21 and \$36, respectively.

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Components of net periodic benefit credit recognized in the statements of activities:		
Interest cost	\$ 7	\$ 11
Amortization of prior service credit	(5)	(5)
Recognized net actuarial gain	<u>(130)</u>	<u>(143)</u>
	<u>\$ (128)</u>	<u>\$ (137)</u>

The components of net periodic benefit cost (credit) are included in other on the statements of activities.

The benefits expected to be paid in each year for the fiscal years 2022-2026 are \$13, \$14, \$15, \$15, and \$15, respectively. The anticipated benefits to be paid in the five years from 2027 to 2031 are \$67.

The Cleveland Museum of Art

Notes to Financial Statements (continued)  
(In Thousands, Unless Noted)

**10. Financing Arrangements and Long-Term Obligations**

**Cultural Facility Revenue Bonds**

Cultural Facility Revenue Bonds consist of the following:

	Interest Rates	Final Fiscal Year Maturity	Amount Outstanding at June 30	
			2021	2020
Series 2005	Variable rate	2037–2041	\$ 90,000	\$ 90,000
Series 2010	3% to 5%	2019–2023	–	42,255
			<b>90,000</b>	132,255
Unamortized premium			–	476
Unamortized financing costs			(350)	(476)
Current portion			–	(42,255)
Long-term debt			<b>\$ 89,650</b>	\$ 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: (a) the Series A Bonds in the principal amount of \$30,000, (b) the Series B Bonds in the principal amount of \$20,000, (c) the Series C Bonds in the principal amount of \$20,000, and (d) 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 tax-free LIBOR, bearing interest at 0.04% at June 30, 2021 (range from 0.04% to 0.23% during the year ended June 30, 2021), and on June 30, 2020, bearing interest at 0.13% (range from 0.10% to 6.9% during the year ended June 30, 2020). The interest rate is determined by an external agent.

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

#### **10. Financing Arrangements and Long-Term Obligations (continued)**

The 2005 Bonds are secured by a standby bond purchase agreement, with an expiration date of January 31, 2024. 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 \$486 during the years ended June 30, 2021 and 2020 and are 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 were used to finance the Museum's construction, renovation, and expansion 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 Bonds maturing in 2021 and 2020 were subject to optional redemption prior to maturity, at the direction of the Museum, on or after October 1, 2020, at a redemption price of 100% of the principal amount redeemed, plus interest accrued to the redemption date. The Museum voluntarily redeemed the Series 2010 Bonds on October 1, 2020.

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, 2021.

#### **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 \$125 of amortization of deferred financing costs during each of the years ended June 30, 2021 and 2020, respectively.

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) *(In Thousands, Unless Noted)*

#### **10. 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 consisted of a \$90,000, eight-year floating-to-fixed rate swap, whereby the Museum paid a fixed rate of 3.341% and received 70% of one-month LIBOR. The notional amount of the swap declined each year until its maturity on January 1, 2014.

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 matured. The swap matured on January 1, 2021. This derivative instrument is not designated as a hedging instrument. At June 30, 2021, the fair value of the swap agreement was \$0 owed to the counterparty, since the swap matured on January 1, 2021. At June 30, 2020, the fair value of the swap agreement was \$(1,471) owed to the counterparty and has been recorded in other current liabilities on the statement of financial position.

In April 2019, the Museum entered into a floating-to-fixed rate swap to hedge the variable rate bonds. This swap terminates on January 1, 2031 and replaced the swap that matured on January 1, 2021. The Museum pays a fixed rate of 2.041% and receives the weighted average of the weekly USD\_SIFMA Municipal Swap Index. This derivative instrument is not designated as a hedging instrument. At June 30, 2021 and 2020, the fair value of the swap agreement was \$(8,318) and \$(12,688), 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 on the statements of activities. Net interest cost incurred under the swap agreement was \$2,135 and \$1,571 for fiscal 2021 and 2020, respectively, and is included in interest expense on the statements of activities.

The Cleveland Museum of Art

Notes to Financial Statements (continued)

*(In Thousands, Unless Noted)*

**10. Financing Arrangements and Long-Term Obligations (continued)**

**Interest**

Interest expense on the 2005 Bonds was \$82 and \$1,048 in fiscal years 2021 and 2020, respectively. Interest expense on the 2010 Bonds was \$483 and \$2,259 in fiscal years 2021 and 2020, respectively. Interest paid on the 2005 and 2010 Bonds was \$565 and \$3,307 in fiscal years 2021 and 2020, respectively.

**Line of Credit**

The Museum maintains a line of credit with a financial institution for \$10,000, expiring on March 4, 2022. The balance of the line of credit as of June 30, 2021 and 2020 was zero.

**11. Liquidity and Availability of Resources**

The Museum's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

The Museum's financial assets available within one year for general expenditures are as follows:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 11,302	\$ 7,449
Investments for current use	2,854	46,255
Accounts receivable	35	12
Endowment investments	599,381	457,954
Other investments	11,153	5,961
	<u>624,725</u>	<u>517,631</u>
Less amounts unavailable for general expenditures:		
Donor-restricted endowment	(475,461)	(354,640)
Board-designated endowment	(123,920)	(103,314)
	<u>\$ 25,344</u>	<u>\$ 59,677</u>



The Cleveland Museum of Art

Notes to Financial Statements (continued)  
*(In Thousands, Unless Noted)*

**11. Liquidity and Availability of Resources (continued)**

The Museum's endowment investments consist of donor-restricted and board-designated endowments. Income from the donor-restricted endowment is restricted for specific purposes and, therefore, is not available for general expenditures. As described in Note 8, a portion of endowment investments are available for general expenditures in the next year through the spending policy. In addition, the Museum has the ability to access board-designated investments by authorization of the Board of Trustees, if necessary.

**12. Functional Expenses**

The following tables present expenses by both their nature and their function for the years ended June 30, 2021 and 2020:

	2021			
	Program Expense	Administration	Auxiliary Services	Total
Salaries and benefits	\$ 16,187	\$ 6,949	\$ 813	\$ 23,949
Cost of goods sold	—	—	344	344
Outside services	1,772	1,703	30	3,505
Advertising	650	—	—	650
Repairs and maintenance	244	550	15	809
Supplies and printing	1,351	243	42	1,636
Utilities	1,458	640	65	2,163
Professional development	215	184	1	400
Hospitality	17	49	16	82
Miscellaneous	637	642	69	1,348
Art transportation, rental fees and insurance	921	—	—	921
Depreciation	11,767	1,987	523	14,277
Interest	2,352	397	105	2,854
Net periodic benefit cost other than service cost	701	119	31	851
	<b>\$ 38,272</b>	<b>\$ 13,463</b>	<b>\$ 2,054</b>	<b>\$ 53,789</b>

## The Cleveland Museum of Art

### Notes to Financial Statements (continued) (In Thousands, Unless Noted)

#### 12. Functional Expenses (continued)

	2020			
	Program Expense	Administration	Auxiliary Services	Total
Salaries and benefits	\$ 16,467	\$ 7,214	\$ 857	\$ 24,538
Cost of goods sold	1	–	569	570
Outside services	2,889	1,424	42	4,355
Advertising	526	–	–	526
Repairs and maintenance	188	509	11	708
Supplies and printing	1,680	146	46	1,872
Utilities	1,330	610	59	1,999
Professional development	397	427	3	827
Hospitality	118	343	230	691
Miscellaneous	561	348	–	909
Art transportation, rental fees and insurance	1,780	–	–	1,780
Depreciation	8,748	1,477	391	10,616
Interest	4,090	690	170	4,950
Net periodic benefit cost other than service cost	747	126	33	906
	\$ 39,522	\$ 13,314	\$ 2,411	\$ 55,247

The financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include expenses related to facilities, depreciation, and protection services, which are allocated on the basis of square footage of the Museum.

#### 13. 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, 2021 and 2020.

#### 14. Subsequent Events

The Museum has evaluated subsequent events through November 19, 2021, the date the financial statements were issued.

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