Audited Financial Statements

The Cleveland Museum of Art
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

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The Cleveland Museum of Art

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Years Ended June 30, 2013 and 2012

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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, 2013 and 2012, 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. 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, 2013 and 2012, 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 25, 2013

The Cleveland Museum of Art

Statements of Financial Position
(In Thousands)

	June 30	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,152**	$ 1,433
Investments for current use	**2,587**	6,539
Accounts receivable	**112**	230
Inventories	**971**	604
Other current assets	**4,127**	1,679
Total current assets	**16,949**	10,485
Investments:		
Endowment investments	**403,156**	370,952
Other investments	**24,737**	28,458
Buildings and equipment:		
Buildings and improvements	**372,391**	218,829
Equipment	**20,701**	19,483
Construction-in-progress	**13,008**	145,104
	406,100	383,416
Less accumulated depreciation	**70,360**	61,687
Total buildings and equipment – net	**335,740**	321,729
Other assets:		
Charitable perpetual trusts	**292,956**	272,303
Pledges receivable	**12,798**	12,593
Other	**1,857**	2,004
	307,611	286,900
Total assets	**$ 1,088,193**	$ 1,018,524

	June 30	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 8,309**	$ 17,299
Deferred revenue	**401**	584
Other current liabilities	**202**	330
Total current liabilities	**8,912**	18,213
Long-term debt	**164,502**	164,990
Other liabilities:		
Accrued postretirement medical benefits	**823**	2,447
Accrued pension obligation	**5,588**	8,290
Other	**12,016**	16,769
	18,427	27,506
Total liabilities	**191,841**	210,709
Net assets:		
Unrestricted	**107,831**	93,137
Temporarily restricted	**423,917**	371,903
Permanently restricted	**364,604**	342,775
Total net assets	**896,352**	807,815
Total liabilities and net assets	**$ 1,088,193**	$ 1,018,524

See accompanying notes.

The Cleveland Museum of Art

Statement of Activities
(In Thousands)

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Endowment and trust income	$ 11,122	$ 8,800	$ –	$ 19,922
Contributions and membership	4,427	19,059	–	23,486
Gifts, grants, and other revenue for special exhibitions	1,471	–	–	1,471
Program revenues and other support	3,428	1,394	–	4,822
Stores, café, parking, and products	2,026	–	–	2,026
Net assets released from restrictions used for operations	22,829	(22,829)	–	–
Total revenues and support	45,303	6,424	–	51,727
Expenses				
Curatorial, conservation, and registrar	6,240	–	–	6,240
Special exhibitions	2,202	–	–	2,202
Education, library, and community programs	4,216	–	–	4,216
Marketing and communications	2,799	–	–	2,799
Development and membership services	3,507	–	–	3,507
General and administrative	4,939	–	–	4,939
Building, facilities, and security	11,069	–	–	11,069
Stores, café, parking, and products	1,648	–	–	1,648
Depreciation	8,673	–	–	8,673
Total expenses	45,293	–	–	45,293
Excess of revenues and support over expenses before other changes in net assets	10	6,424	–	6,434
Other changes in net assets				
Trust revenue designated for art purchases	–	4,728	–	4,728
Investment return designated for art purchase	–	6,913	–	6,913
Net assets released from restrictions used to fund acquisition of art objects	9,363	(9,363)	–	–
Expenditures for acquisition of art objects	(9,363)	–	–	(9,363)
Proceeds from the deaccession of art	–	12,078	–	12,078
Gifts and contributions	47	243	1,176	1,466
Other changes	(21)	8	–	(13)
Investment return after amounts designated	5,599	30,983	–	36,582
Change in fair value of derivative instruments	4,822	–	–	4,822
Change in fair value of charitable perpetual trusts	–	–	20,653	20,653
Changes in funded status of pension benefits	2,702	–	–	2,702
Changes in funded status of postretirement medical benefits	1,535	–	–	1,535
Increase in net assets	14,694	52,014	21,829	88,537
Net assets at beginning of year	93,137	371,903	342,775	807,815
Net assets at end of year	$ 107,831	$ 423,917	$ 364,604	$ 896,352

See accompanying notes.

The Cleveland Museum of Art

Statement of Activities
(In Thousands)

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Endowment and trust income	$ 11,015	$ 8,500	$ –	$ 19,515
Contributions and membership	3,780	8,464	–	12,244
Gifts, grants, and other revenue for special exhibitions	925	–	–	925
Program revenues and other support	3,355	1,157	–	4,512
Stores, café, parking, and products	1,260	–	–	1,260
Net assets released from restrictions used for operations	19,804	(19,804)	–	–
Total revenues and support	40,139	(1,683)	–	38,456
Expenses				
Curatorial, conservation, and registrar	5,941	–	–	5,941
Special exhibitions	1,658	–	–	1,658
Education, library, and community programs	4,123	–	–	4,123
Marketing and communications	1,660	–	–	1,660
Development and membership services	3,517	–	–	3,517
General and administrative	4,990	–	–	4,990
Building, facilities, and security	9,982	–	–	9,982
Stores, café, parking, and products	1,591	–	–	1,591
Depreciation	6,665	–	–	6,665
Total expenses	40,127	–	–	40,127
Excess (deficiency) of revenues and support over expenses before other changes in net assets	12	(1,683)	–	(1,671)
Other changes in net assets				
Trust revenue designated for art purchases	–	4,713	–	4,713
Investment return designated for art purchase	–	7,498	–	7,498
Net assets released from restrictions used to fund	–	–	–	
acquisition of art objects	10,299	(10,299)	–	–
Expenditures for acquisition of art objects	(10,299)	–	–	(10,299)
Gifts and contributions	(13)	488	528	1,003
Other changes	(32)	(44)	–	(76)
Investment return after amounts designated	(2,612)	(13,251)	–	(15,863)
Change in fair value of derivative instruments	(7,976)	–	–	(7,976)
Change in fair value of charitable perpetual trusts	–	–	(18,236)	(18,236)
Changes in funded status of pension benefits	(4,952)	–	–	(4,952)
Changes in funded status of postretirement medical benefits	(295)	–	–	(295)
Decrease in net assets	(15,868)	(12,578)	(17,708)	(46,154)
Net assets at beginning of year	109,005	384,481	360,483	853,969
Net assets at end of year	$ 93,137	$ 371,903	$ 342,775	$ 807,815

See accompanying notes.

The Cleveland Museum of Art

Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2013	Year Ended June 30 2012
Operating activities		
Reconciliation of increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Increase(decrease) in net assets	**$ 88,537**	$ (46,154)
Adjustments to reconcile increase (decrease) in net assets to cash (used in) provided by operating activities:		
Depreciation and amortization	**8,673**	6,665
Amortization of bond premiums	**(488)**	(587)
Change in fair value of derivative instruments	**(4,822)**	7,976
Net realized and unrealized (gains) losses on long-term investments	**(47,748)**	11,942
Contributions restricted for long-term purposes	**(19,059)**	(11,034)
(Increase) decrease in fair value of charitable perpetual trusts	**(20,653)**	18,236
Acquisitions and sales of art, net	**(2,715)**	9,824
Changes in funded status of pension and postretirement medical benefits	**(4,237)**	5,247
Changes provided by (used in) operating assets and liabilities:		
Decrease (increase) in accounts receivable	**118**	(16)
(Increase) in inventories and other current assets	**(2,815)**	(824)
(Increase) decrease in pledges receivable	**(205)**	7,155
Decrease in other assets	**147**	191
Decrease in accounts payable and accrued expenses	**(11,666)**	(6,476)
(Decrease) increase in deferred revenue	**(183)**	302
(Decrease) in other current liabilities	**(128)**	(22)
Increase in other liabilities	**69**	1,358
Net cash (used in) provided by operating activities	**(17,175)**	3,783
Financing activities		
Contributions restricted for long-term purposes	**19,059**	11,034
Net cash provided by financing activities	**19,059**	11,034
Investing activities		
Purchases of buildings and equipment	**(20,097)**	(35,835)
Acquisition of art objects	**(9,363)**	(10,299)
Proceeds from the deaccession of art	**12,078**	475
Proceeds from sales and maturities of investments	**339,988**	419,397
Purchases of investments	**(316,771)**	(394,107)
Net cash provided by (used in) investing activities	**5,835**	(20,369)
Net increase (decrease) in cash and cash equivalents	**7,719**	(5,552)
Cash and cash equivalents at beginning of year	**1,433**	6,985
Cash and cash equivalents at end of year	**$ 9,152**	$ 1,433

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 $7,257 and $5,338 in fiscal 2013 and 2012, 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. The Museum is the income beneficiary of several charitable perpetual trusts. Because the trusts are not controlled by the Museum and the trust assets are held in perpetuity, the assets are classified as permanently restricted net assets. The Museum records its interest in charitable perpetual trusts at its pro rata share of the fair value of the underlying assets.

2. Significant Accounting Policies (continued)

Income distributed to the Museum by the trusts of $12,942 and $12,807 in fiscal 2013 and 2012, respectively, is included in endowment and trust income and trust revenue designated for art purchases 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 associated with the expansion project currently undertaken by the Museum. The total appropriated is not to exceed $75,000. During fiscal 2013 and 2012, the Museum appropriated approximately $5,600 and $5,600, 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.

2. Significant Accounting Policies (continued)

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. Other investments are primarily funds designated by the Board of Trustees for specific purposes.

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.

2. Significant Accounting Policies (continued)

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 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 $12,280 and $144,478 related to the expansion and renovation project at June 30, 2013 and 2012, respectively. At June 30, 2013, the Museum had outstanding

(In Thousands, Unless Noted)

2. Significant Accounting Policies (continued)

commitments for construction and other related capital contracts of approximately $1,600. Capital expenditures included in accounts payable and accrued expenses and thus not presented in the statements of cash flows are $2,587 and $6,539 for the years ended June 30, 2013 and 2012, respectively.

On January 10, 2013, the Museum entered into an agreement with another party to jointly purchase property. A payment of $500 was deposited with an escrow agent and will be held by the agent until the closing date of the transaction, which is estimated to be September 30, 2015. The Museum is committed to a final payment of $4,100 on the closing date. The deposit is included in investments in the statement of financial position at June 30, 2013.

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 changes in net assets in the period of change.

3. Pledges Receivable

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

	June 30	
	2013	**2012**
Pledges due:		
In less than one year	**$ 5,158**	$ 4,628
In one to five years	**7,044**	9,043
Greater than five years	**1,625**	481
	13,827	14,152
Present value discount on pledges (2.6%–5.38% discount rate)	**(1,029)**	(1,559)
	$ 12,798	$ 12,593

(In Thousands, Unless Noted)

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2013	**2012**
Acquisition of art	**$ 155,333**	$ 130,430
Specific operating activities:		
Curatorial and conservation	**3,437**	2,243
Education, library, and community programs	**8,016**	7,310
Buildings, grounds, and protection services	**180,782**	168,204
General operating and other	**76,349**	63,716
Total temporarily restricted net assets	**$ 423,917**	$ 371,903

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	
	2013	**2012**
Purchase of art	**$ 129,625**	$ 122,140
Specific operating activities	**21,597**	20,446
General operating activities	**213,382**	200,189
Total permanently restricted net assets	**$ 364,604**	$ 342,775

(In Thousands, Unless Noted)

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	
	2013	**2012**
Acquisition of art	**$ 9,363**	$ 10,299
Specific operating activities:		
Curatorial and conservation	**$ 1,248**	$ 1,137
Education, library, and community programs	**1,101**	1,105
Buildings, grounds, and protection services	**4,008**	3,483
General operating and other	**16,472**	14,079
Net assets released from restrictions used for operations	**$ 22,829**	$ 19,804

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, 2013, by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Investments for current use:				
Commercial paper	$ –	$ 2,587	$ –	$ 2,587
Endowment investments:				
Cash and cash equivalents	45,653	–	–	45,653
Equities:				
Common stocks, primarily U.S.	30,769	–	–	30,769
Collective equity funds	–	86,182	–	86,182
Equity mutual funds	96,203	–	–	96,203
American depository receipts	2,322	–	–	2,322
Real estate investment trust	270	–	–	270
Fixed income securities:				
Corporate bonds	–	11,764	–	11,764
Foreign bonds	–	–	–	–
Asset-backed bonds	–	3,262	–	3,262
Mortgage backed bonds	–	7,733	–	7,733
General obligation municipal bonds	–	–	–	–
Government bonds	–	7,105	–	7,105
Fixed income mutual fund	9,487	–	–	9,487
Alternative investments:				
Absolute return	–	–	54,159	54,159
Private equity	–	–	48,247	48,247
Total endowment investments	184,704	116,046	102,406	403,156
Other investments:				
Commercial paper	–	24,737	–	24,737
Charitable perpetual trusts	–	–	292,956	292,956
Total assets at fair value	$ 184,704	$ 143,370	$ 395,362	$ 723,436
Liabilities				
Interest rate swap	$ –	$ 8,620	$ –	$ 8,620
Total liabilities at fair value	$ –	$ 8,620	$ –	$ 8,620

(In Thousands, Unless Noted)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value at June 30, 2012, by the ASC 820 valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Investments for current use:				
Commercial paper	$ –	$ 6,539	$ –	$ 6,539
Endowment investments:				
Cash and cash equivalents	20,391	–	–	20,391
Equities:				
Common stocks, primarily U.S.	32,233	–	–	32,233
Collective equity funds	–	66,868	–	66,868
Equity mutual funds	114,231	–	–	114,231
American depository receipts	1,086	–	–	1,086
Real estate investment trust	208	–	–	208
Fixed income securities:				
Corporate bonds	–	13,327	–	13,327
Foreign bonds	–	1,755	–	1,755
Asset-backed bonds	–	3,088	–	3,088
General obligation municipal bonds	–	539	–	539
Government bonds	–	960	–	960
Fixed income mutual fund	6,587	–	–	6,587
Alternative investments:				
Absolute return	–	–	45,387	45,387
Hedged equity	–	–	11,134	11,134
Private equity	–	–	53,158	53,158
Total endowment investments	174,736	86,537	109,679	370,952
Other investments:				
Commercial paper	–	28,458	–	28,458
Charitable perpetual trusts	–	–	272,303	272,303
Total assets at fair value	$ 174,736	$ 121,534	$ 381,982	$ 678,252
Liabilities				
Interest rate swap	$ –	$ 13,442	$ –	$ 13,442
Total liabilities at fair value	$ –	$ 13,442	$ –	$ 13,442

7. Fair Value Measurements (continued)

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 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. Fair value for Level 2 investments in collective equity funds are valued at net asset value (NAV).

Fixed income securities include debt obligations of the U.S. government and various agencies, U.S. corporations, and other fixed income instruments such as asset-backed securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined fixed income indexes such as the Barclays Capital U.S. Aggregate Index. Additionally, fixed income securities include fixed income mutual funds that may also invest opportunistically in mortgage-backed and asset-backed securities as well as non-U.S. and high-yield debt instruments.

Equities include investments of publicly traded common stocks of both U.S. and international corporations, the majority of which represent actively traded and liquid securities that are traded on many of the world's major exchanges and include large-, mid-, and small-capitalization securities. The composition of these securities represents an expected return and risk profile that is commensurate with broadly defined equity indexes such as the Russell 3000 Index. Included in Level 2 are equity investments that reside in commingled equity funds whose underlying assets may include publicly traded equity securities.

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. The charitable perpetual trusts are presented at the fair value of the Museum's portion of the underlying trust assets. Since the Museum has no right to the underlying investments, the charitable perpetual trusts have been classified as Level 3. 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

7. Fair Value Measurements (continued)

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, 2013, the Museum is committed to invest an additional $22,741 in alternative investments. However, it is uncertain as to the timing or level of additional contributions that will ultimately be made.

Alternative investments are diversified across various strategies and may consist of absolute return funds, 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 equity and debt investments in operating companies that are not publicly traded. Investment strategies in this category may include buyouts, distressed debt, and venture capital.

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 nonperformance risk.

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:

	Absolute Return	Hedged Equity	Private Equity	Charitable Perpetual Trusts & Other	Total
Fair value at July 1, 2011	$ 65,631	$ 11,748	$ 71,826	$ 290,539	$ 439,744
Net realized gains	24,889	–	5,395	–	30,284
Net unrealized gains (losses)	(22,705)	(614)	(2,690)	(18,236)	(44,245)
Purchases	–	–	8,213	–	8,213
Distributions	(10,992)	–	(12,692)	–	(23,684)
Settlements	(11,436)	–	(16,894)	–	(28,330)
Fair value at June 30, 2012	45,387	11,134	53,158	272,303	381,982
Net realized gains	**(131)**	**–**	**5,810**	**–**	**5,679**
Net unrealized gains	**780**	**502**	**160**	**20,653**	**22,095**
Purchases	**16,647**	**–**	**4,970**	**–**	**21,617**
Distributions	**(8,380)**	**–**	**(15,479)**	**–**	**(23,859)**
Settlements	**(144)**	**(11,636)**	**(372)**	**–**	**(12,152)**
Fair value at June 30, 2013	**$ 54,159**	**$ –**	**$ 48,247**	**$ 292,956**	**$ 395,362**

At June 30, 2013, the Museum's alternative investments are subject to various liquidity restrictions as follows:

Available for redemption:	
Quarterly	$ 12,932
Subject to remaining lock-up provisions:	
One to three years	40,352
More than three years	49,122
Total alternatives	$ 102,406

7. 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 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.

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 $79,173 at June 30, 2013 and a carrying value of $70,430 and a fair value of $81,655 at June 30, 2012. The fair value of the fixed rate long-term debt is estimated by discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements and adjusted for credit.

(In Thousands, Unless Noted)

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, 2013			
Dividends and interest	**$ 1,168**	**$ 6,281**	**$ –**
Realized and unrealized gains, net of realized and unrealized losses	**7,501**	**40,253**	**–**
Change in fair value of charitable perpetual trusts	**–**	**–**	**20,653**
Investment return	**8,669**	**46,534**	**20,653**
Investment return designated for current operations (included in endowment and trust income)	**(3,070)**	**(8,638)**	**–**
Investment return designated for art purchase	**–**	**(6,913)**	**–**
Investment return after amounts designated	**$ 5,599**	**$ 30,983**	**$ 20,653**

	Unrestricted	Temporarily Restricted	Permanently Restricted
Year ended June 30, 2012			
Dividends and interest	$ 723	$ 3,858	$ –
Realized and unrealized losses, net of realized and unrealized gains	(253)	(1,272)	–
Change in fair value of charitable perpetual trusts	–	–	(18,236)
Investment return	470	2,586	(18,236)
Investment return designated for current operations (included in endowment and trust income)	(3,082)	(8,339)	–
Investment return designated for art purchase	–	(7,498)	–
Investment return after amounts designated	$ (2,612)	$ (13,251)	$ (18,236)

8. Investments and Charitable Perpetual Trusts (continued)

Investment return is net of investment-related expenses of $2,400 and $2,500 for the years ended June 30, 2013 and 2012, respectively. The Museum's investments and charitable perpetual trusts are exposed to various risks, such as interest rate, market, and credit risks.

9. 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. CleveHunt 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 Member's percentage interest. Capital contributions and withdrawals adjust the Member's 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 statements of financial position, statements of activities and statements of cash flows 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 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, 2013, the total net assets of the Company were $525,100. Based on the Museum's ownership percentage at June 30, 2013 of 75.85%, the Museum's share of the net assets amounted to $398,300 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 $126,800 at June 30, 2013 are included in charitable perpetual trusts in the Museum's statement of financial position. At June 30, 2012 the total net assets of the Company were $448,532. Based on the Museum's ownership percentage at June 30, 2012 of 74.01%, the Museum's share of the net assets amounted to $331,972 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 $116,560 at June 30, 2012 are included in charitable perpetual trusts in the Museum's statement of financial position.

9. Endowment (continued)

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 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

9. Endowment (continued)

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.

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, 2012, for the fiscal year ended June 30, 2013, and 4.5% to 5.5% of the market value of the investments for the prior 20-quarter average ended March 31, 2011, for the fiscal year ended June 30, 2012, as adjusted (subject to certain limitations) for inflation and additional contributions. For fiscal 2013 and 2012, 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 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% to 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

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	**$ –**	**$ 227,921**	**$ 70,300**	**$ 298,221**
Charitable perpetual trusts	**–**	**–**	**292,956**	**292,956**
Board-designated	**104,935**	**–**	**–**	**104,935**
Total endowment	**$ 104,935**	**$ 227,921**	**$ 363,256**	**$ 696,112**

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	$ –	$ 201,942	$ 68,649	$ 270,591
Charitable perpetual trusts	–	–	272,303	272,303
Board-designated	100,361	–	–	100,361
Total endowment	$ 100,361	$ 201,942	$ 340,952	$ 643,255

Changes in endowment net assets for the fiscal year ended June 30, 2013, consisted of the following:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 100,361**	**$ 201,942**	**$ 340,952**	**$ 643,255**
Investment return:				
Investment income	**1,168**	**6,281**	**–**	**7,449**
Net appreciation (realized and unrealized)	**7,501**	**40,253**	**20,653**	**68,407**
Total investment income	**8,669**	**46,534**	**20,653**	**75,856**
Contributions	**498**	**355**	**1,650**	**2,503**
Appropriation of endowment assets for expenditure	**(4,592)**	**(20,910)**	**–**	**(25,502)**
Endowment net assets, end of year	**$ 104,936**	**$ 227,921**	**$ 363,255**	**$ 696,112**

(In Thousands, Unless Noted)

9. Endowment (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 102,681	$ 214,336	$ 358,082	$ 675,099
Investment return:				
Investment income	723	3,858	–	4,581
Net depreciation (realized and unrealized)	(254)	(1,272)	(18,236)	(19,762)
Total investment income	469	2,586	(18,236)	(15,181)
Contributions	293	857	1,106	2,256
Appropriation of endowment assets for expenditure	(3,082)	(15,837)	–	(18,919)
Endowment net assets, end of year	$ 100,361	$ 201,942	$ 340,952	$ 643,255

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 six endowment funds considered deficient as of June 30, 2013, totaling approximately $0.6 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. 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.

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, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plan		**Other Postretirement**	
	2013	**2012**	**2013**	**2012**
Actuarial loss (gain)	**$ 8,029**	$ 10,789	**$ (1,810)**	$ (78)
Net prior service (credit)	**(570)**	(628)	**(797)**	(994)
Total unrecognized amounts included in unrestricted net assets	**$ 7,459**	$ 10,161	**$ (2,607)**	$ (1,072)

(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 $449 and $(58), respectively. There are no actuarial gains and prior service (credits) for the postretirement medical plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year.

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

	June 30	
	2013	**2012**
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$ 34,355**	$ 28,100
Service cost	**495**	455
Interest cost	**1,290**	1,461
Actuarial losses (gain)	**(2,582)**	5,687
Benefits paid	**(1,356)**	(1,348)
Benefit obligation at end of fiscal year	**32,202**	34,355
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**26,065**	24,606
Actual return on plan assets	**1,071**	2,103
Employer contributions	**834**	704
Benefits paid	**(1,356)**	(1,348)
Fair value of plan assets at end of fiscal year	**26,614**	26,065
Underfunded status of the plan and accrued pension obligation	**$ (5,588)**	$ (8,290)
Accumulated benefit obligation	**$ 32,055**	$ 34,217

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

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

	June 30 2013	June 30 2012
Discount rate – liability	**4.50%**	3.85%
Discount rate – cost	**3.85%**	5.35%
Expected rate of return on plan assets	**6.50%**	6.50%
Compensation growth rate – liability	**3.00%**	3.00%
Compensation growth rate – cost	**3.00%**	3.00%

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 2013	Year Ended June 30 2012
Components of net periodic benefit cost recognized in the statements of activities:		
Service cost	**$ 495**	$ 455
Interest cost	**1,290**	1,461
Expected return on plan assets	**(1,549)**	(1,563)
Amortization of prior service cost	**(58)**	(58)
Recognized net actuarial loss	**657**	253
	$ 835	$ 548

(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	
	2013	**2012**
Debt securities	**89%**	94%
Equity securities	**2**	2
Real estate	**–**	2
Other	**9**	2
Total	**100%**	100%

The Museum expects to make a contribution of $600 to the Pension Plan in fiscal year 2014. 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:	
2014	$ 1,569
2015	1,623
2016	1,701
2017	1,767
2018	1,820
Five years thereafter	10,104

(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 $200 and $193 for the years ended June 30, 2013 and 2012, respectively.

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

	June 30	
	2013	**2012**
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$ 2,666**	$ 2,681
Interest cost	**80**	118
Actuarial (gain) loss	**(1,732)**	98
Benefits paid	**(209)**	(298)
Participant contributions	**85**	67
Benefit obligation at end of fiscal year	**890**	2,666
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**–**	–
Participant contributions	**85**	67
Employer contributions	**124**	231
Benefits paid	**(209)**	(298)
Fair value of plan assets at end of fiscal year	**–**	–
Underfunded status of the plan and accrued postretirement medical benefits	**$ (890)**	$ (2,666)

Approximately $67 and $219 of the accrued postretirement medical benefit liability is included in accounts payable and accrued expenses on the statements of financial position in 2013 and 2012, respectively.

(In Thousands, Unless Noted)

10. Benefit Plans (continued)

The discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2013 and 2012, was 3.85% and 3.15%, respectively. The discount rate used in determining the net periodic benefit cost was 3.15% and 4.6% at June 30, 2013 and 2012, respectively. The health care cost trend rate used is 10.00% for fiscal year 2013, declining to 5.5% by 2022. A one-percentage-point increase or decrease in the health care cost trend rate would have increased or decreased the fiscal 2013 interest costs in total by $6 and $6, respectively, and would have increased or decreased the accumulated postretirement benefit obligation by $59 and $53, respectively.

	Year Ended June 30	
	2013	**2012**
Components of net periodic benefit credit recognized in the statements of activities:		
Interest cost	**$ 80**	$ 117
Amortization of prior service credit	**(196)**	(196)
	$ (116)	$ (79)

The benefits expected to be paid in each year for the fiscal years 2014 – 2018 are $67, $72, $70, $71 and $73, respectively. The anticipated benefits to be paid in the five years from 2019 – 2023 are $348.

11. Financing Arrangements and Long-Term Obligations

Operating Leases

The Museum had an operating lease for office space which expired in fiscal 2012. Total rental expense for the year ended June 30, 2012 was $143. 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, 2013 and 2012, was $94 and $110, respectively. Minimum operating lease payments for each of the next two fiscal years are approximately $100.

Cultural Facility Revenue Bonds

Cultural Facility Revenue Bonds consist of the following:

	Interest Rate(s)	Final Fiscal Year Maturity	Amount Outstanding at June 30 2013	2012
Series 2005	Variable rate	2037 – 2041	**$ 90,000**	$ 90,000
Series 2010	3.00% to 5.00%	2019 – 2023	**70,430**	70,430
			160,430	160,430
Unamortized premium			**4,072**	4,560
Current portion			**–**	–
			$ 164,502	$ 164,990

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, 2013, bearing interest at .07% (range from .06% to .23% during the year ended June 30, 2013), and on June 30, 2012, bearing interest at .14% to .19 (range from .05% to .27% during the year ended June 30, 2012). 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 December 1, 2014. 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 $450 and $566 during the years ended June 30, 2013 and 2012, respectively, 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 are being 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, 2013.

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 of amortization of deferred financing costs during each of the years

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

ended June 30, 2013 and 2012. Unamortized financing costs of $1,357 and $1,483 are included in other long-term assets on the statements of financial position at June 30, 2013 and 2012, respectively.

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 $3,000 and $15,000 at June 30, 2013 and 2012, respectively. This derivative instrument is not designated as a hedging instrument. At June 30, 2013 and 2012, the fair value of the swap agreement as of the close of business that day, was $(25) and $(250), 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 $191 and $571 for fiscal 2013 and 2012, 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, 2013 and 2012, the fair value of the swap agreement as of the close of business that day, was $(8,595) and $(13,192), 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 $2,277 and $1,938 for fiscal 2013 and 2012, respectively, and is included in general and administrative expense on the statements of activities.

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

Interest

Interest expense on the 2005 Bonds was approximately $129 and $123 in fiscal years 2013 and 2012, respectively, and is included in general and administrative expense on the statements of activities. Interest expense on the 2010 Bonds was approximately $3,155 for the years ended June 30, 2013 and 2012; of this amount, $2,366 and $3,155 was capitalized for fiscal 2013 and 2012, respectively, and $789 and $0 was included in general and administrative expense on the statements of activities for fiscal 2013 and 2012, respectively. Interest paid was $3,284 and $3,278 in fiscal years 2013 and 2012, respectively.

Lines of Credit

The Museum has a line of credit with a financial institution totaling $20,000. The line is intended to meet the short-term financing needs of the Museum. There were no amounts borrowed on the line of credit during 2013 and no amounts outstanding as of June 30, 2013 or 2012.

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, 2013 and 2012.

13. Subsequent Events

The Museum has evaluated subsequent events through November 25, 2013, the date the financial statements were issued.

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