FINANCIAL REPORT

TREASURER'S REPORT 2010

The past fiscal year was another period of change for the museum and we are positioned well for the future. The year brought changes in leadership with an Interim Director, Debbie Gribbon, whose very capable hands steered the ship until our new Director, David Franklin, could take over at the helm. During this time, the Board of Trustees voted to continue to move forward and complete the building project that has been a major focal point for the past many years. With the approval to go ahead and complete the building project, our efforts were concentrated on two things: the issuance of fixed-rate bonds to support the necessary cash flow required to finish the project and securing interest rates on the current variable-rate bonds to eliminate future uncertainty by locking in favorable low rates in the bond markets.

Two major transactions were undertaken during the year. First, in December 2009, as described in note 11 (p. 203), the museum entered into a forward swap with the effective date of January 3, 2011, and with an increasing notional value through January 2, 2014. The objective was to fix the museum's exposure on the interest rate through January 1, 2021, as the original swap's notional value decreases to zero. These two derivative instruments both had negative fair values as of June 30, 2010, totaling more than $6 million. The swaps were entered into for the sole purpose of managing our interest rate exposure to rising interest rates in the future. Secondly, as described in note 13 on Subsequent Events (p. 204), on July 1, 2010, the museum issued $70,430,000 in fixed-rate tax-exempt bonds with maturity dates ranging from 2018 to 2022 and coupon rates from 3% to 5%. The net proceeds realized by the sale of these bonds was approximately $75 million.

An important element in issuing these bonds was obtaining an "AA+" stable rating from Standard & Poor's, which indicates that the financial strength of the museum is still very strong. As shown in the financial statements of the museum, our endowment and trusts continue to recover with a net of fees, one year return of over 12% and ending with a balance of just under $583 million after our endowment draws. Our annual operating position ended positive for the second year in a row, slightly over $1 million. The surplus reflects the budget cuts taken at the beginning of the year in anticipation of the declining endowment draws yet to come over the next two to three years due to the five-year spending rule the museum utilizes.

Looking forward, we anticipate a balanced budget in fiscal year 2010–2011. Our endowment continues to recover and the building project continues to be on schedule and on budget. Construction should be completed by December 2012 and the reinstallation of the entire permanent collection by December 2013.

Janet Ashe
Deputy Director of Administration and Treasurer

SUMMARY OF KEY FINANCE DATA

(in thousands)	**Year ended June 30, 2010**	Year ended June 30, 2009	Year ended June 30, 2008	Year ended June 30, 2007	Year ended June 30, 2006
Investment	**$ 338,646.0**	$ 328,177.0	$ 418,281.0	$ 454,814.1	$ 402,671.6
Charitable perpetual trusts	**244,083.0**	231,536.0	318,663.0	365,875.8	323,698.5
Total	**582,729.0**	559,713.0	736,944.0	820,689.9	726,370.1
Art Purchases	**10,804.0**	9,510.0	13,929.0	16,130.1	4,748.3
Unrestricted revenue and support	**40,062.0**	40,891.0	33,692.0	36,020.7	29,481.3
Operating expensees	**38,871.0** C	39,533.0 B	35,012.0	35,992.2	29,479.7
Excess (deficiency) of operating revenue and support over operating expenses	**1,191.0**	1,358.0	(1,320.0)	28.5	1.6
Less one-time expenses	**0.0**	0.0	1,967.0 A		
Comparative annualized operating position excluding one-time charge	**1,191.0**	1,358.0	647.0	28.5	1.6
Five-year average (excluding one-time charge)	**251.8**				

A. includes one-time charges for building depreciation, severance
B. Includes depreciation expense for Phase I building project of 3,125
C. Includes depreciation expense for Phase I building project of 5,195

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
The Cleveland Museum of Art

We have audited the accompanying statements of financial position of The Cleveland Museum of Art (the Museum) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in fiscal 2009, the Museum adopted FASB Staff Position FAS 117-1 (codified as part of Accounting Standard Codification 958, *Not-for-Profit Entities*), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*

Ernst + Young LLP

November 24, 2010

STATEMENTS OF FINANCIAL POSITION

(in thousands)

	June 30, 2010	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,365**	$ 1,897
Short-term investments	**12,168**	5,414
Accounts receivable	**261**	240
Inventories	**635**	655
Other current assets	**914**	11,702
Total current assets	**21,343**	19,908
Investments	**338,646**	328,177
Buildings and equipment:		
Buildings and improvements	**212,479**	211,669
Equipment	**18,269**	16,517
Construction-in-progress	**58,224**	22,979
	288,972	251,165
Less accumulated depreciation	**48,133**	41,379
Total buildings and equipment—net	**240,839**	209,786
Other assets:		
Charitable perpetual trusts	**244,083**	231,536
Pledges receivable	**26,983**	34,245
Other	**1,447**	1,509
Total other assets	**272,513**	267,290
Total assets	**$ 873,341**	**$ 825,161**

	June 30, 2010	June 30, 2009
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 16,219**	$ 8,761
Deferred revenue	**275**	343
Other current liabilities	**241**	11,118
Total current liabilities	**16,735**	20,222
Long-term debt	**90,000**	90,000
Other liabilities:		
Accrued postretirement medical benefits	**2,332**	2,301
Accrued pension obligation	**3,266**	1,676
Other	**7,214**	3,767
	12,812	7,744
Total liabilities	**119,547**	117,966
Net assets:		
Unrestricted	**102,403**	102,119
Temporarily restricted	**339,909**	308,096
Permanently restricted	**311,482**	296,980
Total net assets	**753,794**	707,195
Total liabilities and net assets	**$ 873,341**	**$ 825,161**

See accompanying notes.

STATEMENT OF ACTIVITIES

Year ended June 30, 2010
(in thousands)

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

See accompanying notes.

STATEMENT OF ACTIVITIES

Year ended June 30, 2009
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Endowment and trust income	$ 20,632	$ 2,015	—	$ 22,647
Contributions and membership	3,941	11,828	—	15,769
Gifts, grants, and other revenue for special exhibitions	3,965	—	—	3,965
Program revenues and other support	3,864	339	—	4,203
Stores, café, parking, and products	1,504	—	—	1,504
Net assets released from restrictions used for operations	6,985	(6,985)	—	—
Total revenues and support	40,891	7,197	—	48,088
Expenses				
Curatorial, conservation, and registrar	6,340	—	—	6,340
Special exhibitions	3,733	—	—	3,733
Education, library, and community programs	4,816	—	—	4,816
Marketing and communications	1,811	—	—	1,811
Development and membership services	3,433	—	—	3,433
General and administrative	5,541	—	—	5,541
Building facilities and security	7,468	—	—	7,468
Stores, café, parking, and products	1,792	—	—	1,792
Depreciation	4,599	—	—	4,599
Total expenses	39,533	—	—	39,533
Excess of revenues and support over expenses before other changes in net assets	1,358	7,197	—	8,555
Other changes in net assets				
Trust revenue designated for art purchases	—	6,130	—	6,130
Investment return designated for art purchase	—	1,492	—	1,492
Net assets released from restrictions used to fund acquisition of art objects	9,510	(9,510)	—	—
Expenditures for acquisition of art objects	(9,510)	—	—	(9,510)
Gifts and contributions	—	—	667	667
Other changes	(3,549)	(176)	3,409	(316)
Investment loss after amounts designated	(45,856)	(39,089)	—	(84,945)
Change in fair value of derivative instruments	(923)	—	—	(923)
Change in fair value of charitable perpetual trusts	—	—	(87,127)	(87,127)
Changes in funded status of pension benefits	(408)	—	—	(408)
Changes in funded status of postretirement medical benefits	(23)	—	—	(23)
Decrease in net assets before cumulative effect of change in accounting principle	(49,401)	(33,956)	(83,051)	(166,408)
Cumulative effect of change in accounting principle	(35,039)	35,039	—	—
(Decrease) increase in net assets	(84,440)	1,083	(83,051)	(166,408)
Net assets at beginning of year	186,559	307,013	380,031	873,603
Net assets at end of year	$ 102,119	$ 308,096	$ 296,980	$ 707,195

See accompanying notes.

STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended June 30, 2010	Year Ended June 30, 2009
Reconciliation of change in net assets to net cash used in operating activities:		
Increase (decrease) in net assets	**$ 46,599**	$ (166,408)
Adjustments to reconcile increase (decrease) in net assets to cash used in operating activities:		
Depreciation and amortization	**6,754**	4,599
Change in fair value of derivative instruments	**3,707**	923
Net realized and unrealized (gains) losses on long-term investments	**(33,594)**	73,461
Contributions restricted for long-term purposes	**(33,872)**	(20,603)
(Increase) decrease in fair value of charitable perpetual trusts	**(12,547)**	87,127
Acquisitions and sales of art, net	**10,035**	9,510
Changes provided by (used in) operating assets and liabilities:		
(Increase) decrease in accounts receivable	**(21)**	122
Decrease in inventories and other current assets	**10,808**	6,986
Decrease in pledges receivable	**7,262**	4,873
Decrease in other assets	**62**	65
Increase (decrease) in accounts payable and accrued expenses	**1,895**	(7,705)
Decrease in deferred revenue	**(68)**	(1,282)
Decrease in other current liabilities	**(10,877)**	(5,940)
Increase in other liabilities	**1,361**	294
Net cash used in operating activities	**(2,496)**	(13,978)
Financing activities		
Contributions restricted for long-term purposes	**33,872**	20,603
Net cash provided by financing activities	**33,872**	20,603
Investing activities		
Purchases of buildings and equipment	**(32,244)**	(18,741)
(Increase) decrease in short-term investments	**(6,754)**	4,145
Acquisition of art objects	**(10,804)**	(9,510)
Proceeds from the sale of art	**769**	–
Proceeds from sales and maturities of investments	**29,899**	20,977
Purchases of investments	**(6,774)**	(4,334)
Net cash used in investing activities	**(25,908)**	(7,463)
Net increase (decrease) in cash and cash equivalents	**5,468**	(838)
Cash and cash equivalents at beginning of year	**1,897**	2,735
Cash and cash equivalents at end of year	**$ 7,365**	$ 1,897

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009
(in thousands, unless noted)

1. Organization

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

2. Significant Accounting Policies

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

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or for a specific purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Museum. Temporarily restricted gifts, grants, and bequests are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose or time restriction expires, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. For temporarily restricted net assets restricted for major capital projects, the Museum has adopted a policy of implying a time restriction on the use of such assets that expires over the assets' useful lives. The Museum records a reclassification to unrestricted net assets as net assets released from restrictions for an amount equal to annual depreciation for building and improvements constructed with restricted funds. Reclassifications of $5,195 and $3,125 in 2010 and 2009, 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.

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 2010, the Museum appropriated approximately $5,700 for said purpose from the temporarily restricted income from the four charitable perpetual trusts.

In August 2008, the Financial Accounting Standards Board (FASB) issued FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1) (codified as part of ASC 958, *Not-for-Profit Entities*). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Museum adopted FSP 117-1 in fiscal 2009 (see Note 9). In connection with the adoption of FSP 117-1, the Museum reclassified $35,039 from unrestricted net assets to temporarily restricted net assets as a cumulative effect of change in accounting principle in the statement of activities for the year ended June 30, 2009, as the funds had not been appropriated for expenditure by the Museum.

During fiscal 2009, the Museum reclassified a gift received in fiscal 2008 of $3,374 from unrestricted net assets to permanently restricted net assets based on additional information received as to donor intent. Because the adjustment was not deemed material to the statement of activities for the year ended June 30, 2008, the reclassification was recorded in fiscal 2009 and included in other changes in net assets in the statement of activities for the year ended June 30, 2009.

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.

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

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

Investment Income
Realized investment gains or losses are determined by comparison of the carrying value to net proceeds received on the settlement date. Unrealized gains or losses are determined by the difference between carrying value and fair value. 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 of the underlying asset.

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

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

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 $57,889 and $21,660 related to the expansion and renovation project at June 30, 2010 and 2009, respectively. During fiscal 2009, $174,000 of the project was placed into service and is included in buildings and improvements. At June 30, 2010, the Museum had outstanding commitments for construction and other related capital contracts of approximately $75,200.

Other Current Assets and Liabilities
Other current assets and liabilities at June 30, 2009, include $10,874 of collateral investments related to securities lending whereby certain securities in the Museum's portfolio were loaned to other institutions generally for a short period of time. The Museum received as collateral the market value of securities borrowed plus a premium approximating 2% of the market value of those securities. The Museum recorded the collateral received as both a current asset and a current liability since the Museum was obligated to return the collateral upon the return of the borrowed securities. There were no securities lending agreements at June 30, 2010.

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 are recognized in the statements of activities as other change in net assets in the period of change.

New Accounting Pronouncements
In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-1 (Codification). The Accounting Standards Codification (ASC) combines all authoritative standards issued by organizations that are in levels A through D of the GAAP hierarchy, such as the FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force, into a comprehensive, topically organized online database. Since this is an accumulation of existing guidance, there is no impact to the financial statements. The Codification became effective for reporting periods that end on or after September 15, 2009 (fiscal 2010 for the Museum).

Effective July 1, 2009, the Museum adopted ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 clarifies that for investments in entities that permit the investor to redeem the investment directly with (or receive distributions from) the investee at net asset value per share (NAV), at times allowable under the terms of the investee's governing documents, NAV is the most relevant estimate of fair value available that would not require undue cost and effort for the reporting entity. A reporting entity is permitted to estimate the fair value of an investment if the net asset value per share of the investment (or its equivalent) is determined in accordance with the Investment Companies Guide as of the reporting entity's measurement date. See Note 7.

Effective July 1, 2009, the Museum adopted ASC 815-10-15, *Disclosures about Derivative Instruments and Hedging Activities* (ASC 815-10-15). ASC 815-10-15 requires additional disclosures about derivative instruments and hedging activities. This new standard requires that objectives for using derivative instruments be disclosed in terms of underlying risks and accounting designation and the fair value, gains and losses of derivative instruments and their location in the financial statements be disclosed. See Note 11.

Effective July 1, 2009, the Museum adopted ASC 715-20, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which provides guidance on expanded disclosures for plan asset of a defined benefit pension or other postretirement plan. ASC 715-20 requires additional disclosure only (see Note 10); and therefore, did not have an impact on the valuation of the Museum's postretirement benefit plans.

Reclassification
Reclassification of certain prior year amounts have been made to conform with current year presentation.

3. Pledges Receivable

Outstanding pledges receivable from various corporations, foundations, and individuals are as follows:

	June 30, 2010	June 30, 2009
Pledges due:		
In less than one year	$ 8,728	$ 5,519
In one to five years	16,791	28,890
Greater than five years	6,893	6,397
	32,412	40,806
Present value discount on pledges (3.20%–5.38% discount rate)	(5,429)	(6,561)
	$ 26,983	$ 34,245

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30, 2010	June 30, 2009
Acquisition of art	$ 121,311	$ 117,306
Specific operating activities:		
Curatorial and conservation	2,067	3,051
Education, library and community programs	6,385	4,558
Buildings, grounds, and protection services	156,764	145,902
General operating and other	53,382	37,279
Total temporarily restricted net assets	$ 339,909	$ 308,096

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, 2010	June 30, 2009
Purchase of art	$ 117,369	$ 112,172
Specific operating activities	17,405	15,780
General operating activities	176,708	169,028
Total permanently restricted net assets	$ 311,482	$ 296,980

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	**June 30, 2010**	June 30, 2009
Acquisition of art	**$ 10,804**	$ 9,510
Specific operating activities:		
Curatorial and conservation	**$ 1,190**	$ 1,539
Education, library and community programs	**903**	726
Buildings, grounds, and protection services	**2,964**	1,581
General operating and other	**14,649**	3,139
Net assets released from restrictions used for operations	**$ 19,706**	$ 6,985

7. Fair Value Measurements

In fiscal 2009, the Museum adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which 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. ASC 820 expands the disclosures about instruments measured at fair value. The adoption of ASC 820 did not have a material impact on the Museum's financial position and changes in net assets.

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 long-term debt approximates fair value.

As noted above, ASC 820 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined 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.

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

Assets	Level 1	Level 2	Level 3	Total Fair Value
Short-term investments	$ 12,168	$ —	$ —	$ 12,168
Investments:				
Cash and cash equivalents	8,558	—	—	8,558
Equities:				
Common stocks, primarily U.S.	35,072	—	—	35,072
Collective equity funds	—	78,987	—	78,987
Equity mutual funds	23,479	—	—	23,479
American depository receipts	1,291	—	—	1,291
Real estate investment trust	170	—	—	170
Fixed income securities:				
Corporate bonds	—	14,739	—	14,739
Foreign bonds	—	3,373	—	3,373
Asset backed bonds	—	8,736	—	8,736
General obligation municipal bonds	—	709	—	709
Fixed income mutual fund	10,592	—	—	10,592
Alternative investments:				
Absolute return	—	—	69,629	69,629
Hedged equity	—	—	23,827	23,827
Private equity	—	—	59,484	59,484
Total investments	79,162	106,544	152,940	338,646
Charitable perpetual trusts	—	—	244,083	244,083
Total assets at fair value	$ 91,330	$ 106,544	$ 397,023	$ 594,897

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest rate swap	$ —	$ 6,033	$ —	$ 6,033
Total liabilities at fair value	$ —	$ 6,033	$ —	$ 6,033

The following table presents the financial instruments carried at fair value at June 30, 2009, by the ASC 820 valuation hierarchy defined above:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Short-term investments	$ 5,414	$ —	$ —	$ 5,414
Investments:				
Cash and cash equivalents	9,320	—	—	9,320
Equities:				
Common stocks, primarily U.S.	30,907	—	—	30,907
Collective equity funds	—	75,662	—	75,662
Equity mutual funds	31,400	—	—	31,400
American depository receipt	483	—	—	483
Real estate investment trust	137	—	—	137
Fixed income:				
Corporate bonds	—	16,567	—	16,567
Foreign bonds	—	2,656	—	2,656
Asset backed bonds	—	10,307	—	10,307
General obligation municipal bonds	—	666	—	666
Fixed income mutual fund	10,212	—	—	10,212
Alternative investments:				
Absolute return	—	—	62,416	62,416
Hedged equity	—	—	23,550	23,550
Private equity	—	—	53,894	53,894
Total investments	82,459	105,858	139,860	328,177
Charitable perpetual trusts	—	—	231,536	231,536
Securities lending collateral	10,874	—	—	10,874
Total assets at fair value	$ 98,747	$ 105,858	$ 371,396	$ 576,001

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest rate swap	$ —	$ 2,326	$ —	$ 2,326
Total liabilities at fair value	$ —	$ 2,326	$ —	$ 2,326

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.

Level 3 assets primarily consist of charitable perpetual trusts and alternative investments. The Museum is the sole income beneficiary of several charitable perpetual trusts and a partial income beneficiary of other charitable perpetual trusts. Because the trusts are held in perpetuity, the assets are classified as permanently restricted net assets. The charitable perpetual trusts are presented at the fair value of the Museum's portion of the underlying trust assets. Fair value of alternative investments (principally limited partnership interests in absolute return, hedged equity and private equity) represent the Museum's ownership interest in the NAV of the respective partnership. Investments held by the partnerships consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Because alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material. At June 30, 2010, the Museum is committed to invest an additional $15,590 in alternative investments. However, it is uncertain as to the timing or level of additional contributions that will ultimately be made.

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

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

	Alternative Investments	Charitable Perpetual Trusts	Total
Fair value as of July 1, 2009	$ 139,860	$ 231,536	$ 371,396
Realized gains	5,731	—	5,731
Unrealized gains	9,096	12,547	21,643
Purchases, issuances and settlements, net	(1,747)	—	(1,747)
Fair value as of June 30, 2010	$ 152,940	$ 244,083	$ 397,023

At June 30, 2010, the Museum's alternative investments are subject to various liquidity restrictions as follows:

Available for redemption:		
Quarterly	$	33,846
Subject to remaining lock-up provisions:		
1 to 3 years		57,147
More than 3 years		61,947
Total alternatives	$	152,940

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

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

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:

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

Year ended June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted
Dividends and interest	$ 1,761	$ 1,887	$ —
Realized and unrealized losses net of realized and unrealized gains	(35,794)	(37,667)	—
Change in fair value of charitable perpetual trusts	—	—	(87,127)
Investment return	(34,033)	(35,780)	(87,127)
Investment return designated for current operations (included in endowment and trust income)	(11,823)	(1,817)	—
Investment return designated for art purchase	—	(1,492)	—
Investment loss after amounts designated	$ (45,856)	$ (39,089)	$ (87,127)

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

9. Endowment

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

Interpretation of Relevant Law
The Board of Trustees of the Museum has interpreted the 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 of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

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

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, 2009, for fiscal year ended June 30, 2010, and March 31, 2008, for the fiscal year ended June 30, 2009, as adjusted (subject to certain limitations) for inflation and additional contributions. For fiscal 2010 and 2009, the calculations resulted in an annual spending rate of approximately 5%. Investment returns in excess of (less than) amounts designated for current operations are classified as other changes in net assets in the statements of activities. Accordingly, over the long-term the Museum expects the current spending policy to allow its endowment to grow at an average of 1.5%–2.5% annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide real growth through new gifts and investment returns.

Endowment Net Asset Composition by Type of Fund:

June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	**$ —**	**$ 175,627**	**$ 67,399**	**$ 243,026**
Charitable perpetual trusts	**—**	**—**	**244,083**	**244,083**
Board-designated	**95,620**	**—**	**—**	**95,620**
Total endowment	**$ 95,620**	**$ 175,627**	**$ 311,482**	**$ 582,729**

June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ —	$ 167,002	$ 65,444	$ 232,446
Charitable perpetual trusts	—	—	231,536	231,536
Board-designated	95,731	—	—	95,731
Total endowment	$ 95,731	$ 167,002	$ 296,980	$ 559,713

Changes in endowment net assets consisted of the following:

Year ended June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 95,731**	**$ 167,002**	**$ 296,980**	**$ 559,713**
Investment return:				
Investment income	**530**	**2,938**	**—**	**3,468**
Net depreciation (realized and unrealized)	**5,032**	**28,562**	**12,547**	**46,141**
Total investment income	**5,562**	**31,500**	**12,547**	**49,609**
Contributions and other changes	**1,531**	**67**	**1,955**	**3,553**
Appropriation of endowment assets for expenditure	**(7,204)**	**(22,942)**	**—**	**(30,146)**
Endowment net assets, end of year	**$ 95,620**	**$ 175,627**	**$ 311,482**	**$ 582,729**

Changes in endowment net assets consisted of the following:

Year ended June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 182,402	$ 174,511	$ 380,031	$ 736,944
Investment return:				
Investment income	1,761	1,887	—	3,648
Net depreciation (realized and unrealized)	(35,794)	(37,667)	(87,127)	(160,588)
Total investment loss	(34,033)	(35,780)	(87,127)	(156,940)
Contributions and other changes	(3,549)	567	4,076	1,094
Appropriation of endowment assets for expenditure	(14,050)	(7,335)	—	(21,385)
Cumulative effect of change in accounting principle	(35,039)	35,039	—	—
Endowment net assets, end of year	$ 95,731	$ 167,002	$ 296,980	$ 559,713

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 seven endowment funds considered deficient as of June 30, 2010, totaling approximately $217.

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. For those employees not making this election, their accumulated benefit was converted to the noncontributory defined 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. 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.

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, 2010 and 2009, respectively, are the following amounts that have not yet been recognized in net periodic benefit cost:

	Pension Plan 2010	Pension Plan 2009	Other Postretirement 2010	Other Postretirement 2009
Actuarial loss (gain)	**$ 5,707**	$ 4,553	**$ (422)**	$ (563)
Net prior service cost (credit)	**(2,443)**	(2,635)	**(1,387)**	(1,584)
Total unrecognized amounts included in unrestricted net assets	**$ 3,264**	$ 1,918	**$ (1,809)**	$ (2,147)

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 $215 and ($192), respectively. The actuarial gain and prior service (credit) for the postretirement medical plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are $17 and ($196), respectively.

The Museum uses June 30 as the measurement date for the pension and postretirement medical plans.

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

	June 30, 2010	June 30, 2009
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$ 23,718**	$ 23,659
Service cost	**594**	615
Interest cost	**1,435**	1,550
Plan amendments	**—**	(2,634)
Actuarial losses	**3,245**	1,666
Benefits paid	**(1,281)**	(1,198)
Participant contributions	**5**	60
Benefit obligation at end of fiscal year	**27,716**	23,718
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**22,042**	22,298
Actual return on plan assets	**3,440**	132
Employer contributions	**244**	750
Benefits paid	**(1,281)**	(1,198)
Participant contributions	**5**	60
Fair value of plan assets at end of fiscal year	**24,450**	22,042
Underfunded status of the plan and accrued pension obligation	**$ (3,266)**	$ (1,676)
Accumulated benefit obligation	**$ 27,365**	$ 23,538

Weighted-average assumptions are as follows:

	June 30, 2010	June 30, 2009
Discount rate – liability	**5.25%**	6.25%
Discount rate – cost	**6.25%**	6.75%
Expected rate of return on plan assets	**7.00%**	7.00%
Discount rate – liability	**3.00%**	3.50%
Compensation growth rate – cost	**3.50%**	3.50%

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

Year Ended	**June 30, 2010**	June 30, 2009
Components of net periodic benefit cost recognized in the statements of activities:		
Service cost	**$ 594**	$ 615
Interest cost	**1,435**	1,550
Expected return on plan assets	**(1,508)**	(1,518)
Amortization of prior service cost	**(192)**	9
Recognized net actuarial loss	**159**	—
	$ 488	$ 656

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 consider 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, 2010	June 30, 2009	
Debt securities	**94%**	94%
Equity securities	**2**	2
Real estate	**2**	2
Other	**2**	2
Total	**100%**	100%

The Museum expects to make a contribution of $600 to the Pension Plan in fiscal year 2011. 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:

2011—$1,430; 2012—$1,473; 2013—$1,562; 2014—$1,608; 2015—$1,640;and in the aggregate for the five years thereafter are $9,193.

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 $168 and $206 for the years ended June 30, 2010 and 2009, respectively.

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

	June 30, 2010	June 30, 2009
Change in benefit obligation:		
Benefit obligation at beginning of fiscal year	**$**	**2,545**
$ 2,792		
Interest cost	**151**	179
Actuarial loss (gain)	**110**	(183)
Benefits paid	**(281)**	(285)
Participant contributions	**44**	42
Benefit obligation at end of fiscal year	**2,569**	2,545
Change in plan assets:		
Fair value of plan assets at beginning of fiscal year	**—**	—
Participant contributions	**44**	42
Employer contributions	**237**	243
Benefits paid	**(281)**	(285)
Fair value of plan assets at end of fiscal year	**—**	—
Underfunded status of the plan and accrued postretirement medical benefits	**$ (2,569)**	$ (2,545)

Approximately $237 and $244 of the accrued postretirement medical benefit liability is included in accounts payable and accrued expenses on the statements of financial position, in 2010 and 2009, respectively.

The discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2010 and 2009 was 5.25% and 6.25%, respectively. The discount rate used in determining the net periodic benefit cost was 6.25% and 6.75% at June 30, 2010 and 2009. The health care cost trend rate used is 8.0% for fiscal year 2010 declining to 5.5% by 2015. A one-percentage-point increase or decrease in the health care cost trend rate would have increased or decreased the fiscal 2010 interest costs in total by $10 and $9, respectively, and would have increased or decreased the accumulated postretirement benefit obligation by $183 and $164, respectively.

Year Ended	**June 30, 2010**	June 30, 2009
Components of net periodic benefit credit recognized in the statements of activities:		
Interest cost	**$ 151**	$ 179
Amortization of prior service cost	**(196)**	(196)
Net actuarial gain recognized	**(31)**	(11)
	$ (76)	$ (28)

The benefits expected to be paid in each year for the fiscal years 2011-2015 are $237, $258, $254, $247, and $239, respectively. The anticipated benefits to be paid in the five years from 2016-2020 are $1,048.

11. Financing Arrangements and Long-Term Obligations

Operating Leases
The Museum has an operating lease for office space. Total rental expense for the years ended June 30, 2010 and 2009, was $430 and $437, respectively. Minimum operating lease payments for the next fiscal year are approximately $440. There are no minimum operating lease payments beyond fiscal 2011.

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. Total rental expense for the years ended June 30, 2010 and 2009, was $80 and $81, respectively. Minimum operating lease payments for each of the next two fiscal years are approximately $85.

Cultural Facility Revenue Bonds
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) (the Bonds), Series 2005, payable October 1, 2040. The proceeds of the Bonds are being used to finance the Museum's construction, renovation, and expansion project. The 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 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 rate on June 30, 2010 bearing interest at 0.26% (range from 0.12% to 0.35% during the year ended June 30, 2010) and on June 30, 2009 bearing interest at 0.30% to 0.35% (range from 0.27% to 10.00% during the year ended June 30, 2009). The interest rate is determined by an external agent.

The Bonds are secured by a standby bond purchase agreement, which expires on October 8, 2012. Under the terms of this agreement, in the event of a failed remarketing, the bank will provide liquidity to make payment to the bond holders. Fees incurred related to the remarketing of the bonds were $933 and $446 during the years ended June 30, 2010 and 2009, respectively, of which $933 and $27 were expensed and included in general and administrative expense in the statement of activities as of June 30, 2010 and 2009, respectively.

While the 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.

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 statement of activities was $31 and $29 of amortization of deferred financing costs during the years June 30, 2010 and 2009, respectively.

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, 2010.

Interest Rate Swap
In connection with the $90,000 Cultural Facility Revenue 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 $43,500 and $69,500 at June 30, 2010 and 2009, respectively. This derivative instrument is not designated as a hedging instrument. At June 30, 2010 and 2009, the fair value of the swap agreement, based on midmarket levels as of the close of business that day, was $(1,591) and $(2,326), 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 $1,522 and $1,673 for fiscal 2010 and 2009, respectively, of which $0 and $618 for fiscal 2010 and 2009, respectively, was capitalized as an addition to construction-in-progress. The remaining net interest cost of $1,522 and $1,055 was expensed in fiscal years 2010 and 2009, respectively, and is included in general and administrative expense on the statement of activities.

In December 2009, the Museum entered into a floating-to-fixed rate swap to hedge the unhedged principal amount of the $90,000 variable rate bonds, due to the declining notional amount of the previous swap. The effective date of the swap is 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, 2010, the fair value of the swap agreement, based on midmarket levels as of the close of business that day, was $(4,442) 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. There was no interest expense recorded in 2010.

Interest

Interest paid on the bonds was approximately $215 and $1,222 in fiscal years 2010 and 2009, respectively, interest of $0 and $1,032 was capitalized in fiscal 2010 and 2009, and $215 and $190 was expensed in fiscal 2010 and 2009, respectively, and is included in general and administrative expense on the statement of activities.

Lines of Credit

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

12. Income Taxes

The Museum is a nonprofit organization and is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. There were no amounts recorded for uncertain tax positions as of June 30, 2010 and 2009.

13. Subsequent Events

The Museum has evaluated subsequent events through November 24, 2010, the date the financial statements were issued.

On September 13, 2010, the Board of Trustees voted to amend the retirement benefits offered to certain participants in the Museum's defined benefit pension plan effective December 31, 2010. The resolution passed by the Board allows participants meeting certain eligibility requirements, to elect to accrue additional benefits in the current defined benefit plan. Those participants not meeting the eligibility requirements shall cease to accrue additional benefits under the plan. For those participants not meeting eligibility requirements or who elect not to accrue additional benefits in the defined benefit plan, the Museum will provide an enhanced contribution to the participant's 401(k) account.

On July 1, 2010, pursuant to certain agreements between the Museum and the ClevelandCuyahoga 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 bonds will be used to finance the Museum's ongoing construction project. The bonds were issued at a premium with varying maturity dates ranging from 2018 to 2022 with coupon rates ranging from 3.00% to 5.00%. The proceeds the Museum realized on the bonds totaled approximately $75,917.

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