FINANCIAL STATEMENTS

THE PHILLIPS COLLECTION

FOR THE YEARS ENDED
JULY 31, 2014 AND 2013

THE PHILLIPS COLLECTION

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GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Phillips Collection
Washington, D.C.

We have audited the accompanying financial statements of The Phillips Collection (the Collection), which comprise the statements of financial position as of July 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 Collection as of July 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

November 25, 2014

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THE PHILLIPS COLLECTION

STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2014 AND 2013

ASSETS

	2014	2013
Cash and cash equivalents	$ 94,354	$ 330,122
Receivables (Notes 3 and 14):		
Trade	46,571	371,000
Gifts and grants	1,555,888	1,952,566
Pledges - CSMA campaign, net of allowance for doubtful accounts of $6,628 in 2014 and 2013	839,694	786,376
Pledges - endowment, net of allowance for doubtful accounts of $0 and $39,985 in 2014 and 2013, respectively	768,613	326,268
Total receivables	3,210,766	3,436,210
Merchandise inventory	305,963	300,749
Prepaid expenses	99,884	104,271
Property and equipment, net of accumulated depreciation and amortization of $17,234,372 and $16,047,401 in 2014 and 2013, respectively (Notes 4 and 7)	29,951,245	30,955,546
Investments (Notes 2 and 15)	56,896,188	52,668,698
TOTAL ASSETS	**$ 90,558,400**	**$ 87,795,596**

LIABILITIES AND NET ASSETS

	2014	2013
LIABILITIES		
Line of credit (Note 6)	$ 630,529	$ 1,280,529
Accounts payable and accrued expenses	450,483	460,086
Accrued compensation	323,364	312,858
Deferred revenue	100,307	264,033
Capital lease obligation (Note 7)	3,449	63,804
Gift annuity debt (Note 14)	160,605	179,805
Bonds payable (Note 8)	11,531,060	12,096,825
Note payable (Note 8)	1,165,833	1,305,733
Total liabilities	14,365,630	15,963,673
NET ASSETS		
Unrestricted	15,936,372	14,825,038
Temporarily restricted (Note 9)	23,890,447	22,747,904
Permanently restricted (Notes 4 and 16)	36,365,951	34,258,981
Total net assets	76,192,770	71,831,923
TOTAL LIABILITIES AND NET ASSETS	**$ 90,558,400**	**$ 87,795,596**

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2014 AND 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Gifts, grants and corporate support, net of expenses of $323,017 and $420,967 in 2014 and 2013, respectively (Notes 3 and 14)	$ 3,679,909	$ 2,373,152	$ 2,143,324	$ 8,196,385
Fees from exhibitions and loaned art, net of expenses of $363,845 and $99,467 in 2014 and 2013, respectively	927,987	-	-	927,987
Admissions	1,326,944	-	-	1,326,944
Shop revenue, net of cost of goods sold of $505,616 and $357,888 in 2014 and 2013, respectively	511,313	-	-	511,313
Other revenue (Note 2)	235,737	-	-	235,737
Contributed services and materials (Note 10)	432,972	-	-	432,972
Endowment earnings transfer (Note 2)	2,120,378	-	-	2,120,378
Net assets released from donor restrictions (Note 9)	1,902,417	(1,902,417)	-	-
Total revenue	11,137,657	470,735	2,143,324	13,751,716
EXPENSES				
Personnel (Note 12)	6,766,262	-	-	6,766,262
Exhibitions	1,065,154	-	-	1,065,154
Contractual services	815,733	-	-	815,733
Insurance	274,189	-	-	274,189
Utilities	596,952	-	-	596,952
Other facility costs (Note 11)	442,823	-	-	442,823
Administrative expenses (Note 6)	531,650	-	-	531,650
Printing and publications	141,751	-	-	141,751
Information technology expenses	289,507	-	-	289,507
Fundraising activities and institutional events	242,637	-	-	242,637
Marketing and advertising	42,200	-	-	42,200
Contributed goods and services (Note 10)	432,972	-	-	432,972
Total expenses	11,641,830	-	-	11,641,830
Changes in net assets from operations before other items	(504,173)	470,735	2,143,324	2,109,886
OTHER ITEMS				
Non-operating investment earnings (Note 2)	-	3,873,567	-	3,873,567
Non-operating net assets released from restriction (Note 9)	1,266,706	(1,266,706)	-	-
Long-term financing expenses (Note 8)	(371,503)	-	-	(371,503)
Depreciation of non-operating assets (Note 4)	(1,027,469)	-	-	(1,027,469)
Art collection acquisitions (Note 5)	(33,030)	-	(36,354)	(69,384)
Gain on interest rate swap (Note 8)	-	-	-	-
Transfer to eliminate deficiency (Notes 2 and 16)	1,935,053	(1,935,053)		
Campaign expenses (Note 2)	(154,250)	-	-	(154,250)
Changes in net assets	1,111,334	1,142,543	2,106,970	4,360,847
Net assets at beginning of year	14,825,038	22,747,904	34,258,981	71,831,923
NET ASSETS AT END OF YEAR	$ 15,936,372	$ 23,890,447	$ 36,365,951	$ 76,192,770

See accompanying notes to financial statements.

2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 3,745,741	$ 1,952,207	$ 137,235	$ 5,835,183
1,412,701	-	-	1,412,701
710,658	-	-	710,658
325,607	-	-	325,607
157,572	-	-	157,572
393,618	-	-	393,618
2,067,346	-	-	2,067,346
1,825,599	(1,825,599)	-	-
10,638,842	126,608	137,235	10,902,685
6,405,064	-	-	6,405,064
1,067,776	-	-	1,067,776
609,066	-	-	609,066
262,962	-	-	262,962
562,721	-	-	562,721
435,385	-	-	435,385
480,613	-	-	480,613
122,831	-	-	122,831
229,416	-	-	229,416
237,341	-	-	237,341
59,864	-	-	59,864
393,618	-	-	393,618
10,866,657	-	-	10,866,657
(227,815)	126,608	137,235	36,028
2,757,549	1,195,405	-	3,952,954
1,442,515	(1,442,515)	-	-
(633,605)	-	-	(633,605)
(1,028,884)	-	-	(1,028,884)
(89,157)	-	(52,215)	(141,372)
71,098	-	-	71,098
-	-	-	-
(70,260)	-	-	(70,260)
2,221,441	(120,502)	85,020	2,185,959
12,603,597	22,868,406	34,173,961	69,645,964
$ 14,825,038	**$ 22,747,904**	**$ 34,258,981**	**$ 71,831,923**

THE PHILLIPS COLLECTION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2014

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Personnel (Note 12)	$ 4,366,246	$ 1,459,712	$ 940,304	$ 6,766,262
Exhibitions	1,062,397	2,456	301	1,065,154
Contractual services	364,683	319,412	131,638	815,733
Insurance	186,201	87,988	-	274,189
Utilities	8,642	588,310	-	596,952
Other facility costs (Note 11)	28,128	414,695	-	442,823
Administrative expenses (Note 6)	312,136	138,471	81,043	531,650
Printing and publications	121,001	5,107	15,643	141,751
Information technology expenses	62,228	224,561	2,718	289,507
Fundraising activities and institutional events	123,273	24,184	95,180	242,637
Marketing and advertising	39,203	2,997	-	42,200
Contributed goods and services (Note 10)	201,579	123,741	107,652	432,972
Sub-total	6,875,717	3,391,634	1,374,479	11,641,830
Overhead allocation	2,460,586	(2,705,932)	245,346	-
TOTAL	**$ 9,336,303**	**$ 685,702**	**$ 1,619,825**	**$ 11,641,830**

THE PHILLIPS COLLECTION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2013

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total Expenses
Personnel (Note 12)	$ 4,058,920	$ 1,413,116	$ 933,028	$ 6,405,064
Exhibitions	1,064,666	1,513	1,597	1,067,776
Contractual services	314,627	262,103	32,336	609,066
Insurance	178,561	84,401	-	262,962
Utilities	7,446	555,110	165	562,721
Other facility costs (Note 11)	25,936	409,449	-	435,385
Administrative expenses (Note 6)	257,928	152,276	70,409	480,613
Printing and publications	104,115	4,696	14,020	122,831
Information technology expenses	55,507	171,317	2,592	229,416
Fundraising activities and institutional events	119,276	18,598	99,467	237,341
Marketing and advertising	56,628	3,236	-	59,864
Contributed goods and services (Note 10)	236,266	96,386	60,966	393,618
Sub-total	6,479,876	3,172,201	1,214,580	10,866,657
Overhead allocation	2,298,830	(2,535,831)	237,001	-
TOTAL	**$ 8,778,706**	**$ 636,370**	**$ 1,451,581**	**$ 10,866,657**

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 4,360,847	$ 2,185,959
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,186,970	1,192,048
Net realized and unrealized gain on investments	(5,578,492)	(5,539,707)
Amortization of discount on gift annuity agreements	(14,554)	(13,676)
Change in allowance for doubtful accounts	(39,985)	-
Gain on interest rate swap	-	(71,098)
Art acquisitions	69,384	141,372
Change in discount on gifts, and grants receivables	(4,279)	(1,819)
Change in discount on CSMA campaign and endowment pledges receivable	11,611	(43,865)
(Increase) decrease in:		
Trade, gifts and grants receivables	725,386	(881,046)
CSMA campaign and endowment pledges receivable	(467,289)	1,349,890
Merchandise inventory	(5,214)	8,293
Prepaid expenses	4,387	4,536
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,603)	(116,282)
Accrued compensation	10,506	(73,045)
Deferred revenue	(163,726)	(60,790)
Net cash provided (used) by operating activities	85,949	(1,919,230)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sale of investments	1,351,002	1,675,807
Purchase of property and equipment	(182,669)	(78,128)
Art acquisitions	(69,384)	(141,372)
Net cash provided by investing activities	1,098,949	1,456,307
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) proceeds on line of credit	(650,000)	1,120,529
Payments on capital lease obligations	(60,355)	(65,422)
Payments under gift annuity agreements	(4,646)	(2,626)
Payments on long term financing	(705,665)	(433,988)
Net cash (used) provided by financing activities	(1,420,666)	618,493
Net (decrease) increase in cash and cash equivalents	(235,768)	155,570
Cash and cash equivalents at beginning of year	330,122	174,552
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 94,354**	**$ 330,122**
SUPPLEMENTAL INFORMATION		
Interest Paid	**$ 340,628**	**$ 436,124**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Phillips Collection (the Collection) was incorporated in 1920. It opened to the public in 1921 and is known as the first museum of modern art in the United States. The Phillips Collection is an intimate museum combined with an experiment station. At its heart is an exceptional collection of modern and contemporary art around which the museum has created a dynamic environment for looking, learning, and enjoyment.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Collection considers demand accounts held with financial institutions to be cash equivalents. Amounts held in investment portfolios, regardless of their maturities, are not considered cash equivalents.

Receivables -

Short-term receivables are stated at their carrying amounts, which approximate fair value due to the relatively short period of time between their obligation and expected realization. Long-term receivables are stated at their fair value, measured as the present value of their future cash flows. The allowance for doubtful accounts is determined based upon a review of account balances, including management's knowledge of the customer, relationship with the customer, and the age of the receivable balance. As a result of these reviews, management has established an allowance as a best estimate of probable losses. All accounts, or portions thereof, that are deemed to be uncollectible, or that require excessive collection cost, are written off.

Merchandise inventory -

Merchandise inventory, which consists of merchandise held for resale by the Collection's Museum Shop, is stated at the lower of cost or estimated market value using the average cost method.

Investments -

Investments are recorded at readily determinable fair values. Investment earnings (losses) include interest, dividends, realized and unrealized gains and losses, net of investment expenses.

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Credit risk from financial instruments relates to the possibility that invested assets within a particular industry segment may experience loss due to market conditions.

The Collection has diversified its financial instruments to help ensure that no one industry segment represents a significant concentration of risk.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Investments (continued) -

Although management uses its best judgment at estimating fair value of the underlying assets for its investments, there are inherent limitations in any valuation technique. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

Property and equipment -

Property and equipment in excess of $1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets: building and building renovations – forty years; and furniture and equipment – three, five, or ten years. Bond issuance costs are amortized over the life of the bond, currently thirty years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Collection is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Collection is not a private foundation.

Although the Collection is organized as a non-profit corporation, revenue derived from its flexible capital and private equity partnerships is considered unrelated business income and subject to taxation by the Internal Revenue Service and the District of Columbia. As a result of these activities, the Collection incurred approximately $1,186 of unrelated business income taxes during the year ended July 31, 2013. No estimated taxes have been paid for the year ended July 31, 2014.

Uncertain tax positions -

For the years ended July 31, 2014 and 2013, the Collection has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Deferred revenue -

Deferred revenue consists of facilities rental fees and exhibition fees for upcoming events. The Collection recognizes these fees when the related event has occurred.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Collection and include both internally designated and undesignated resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Net asset classification (continued) -

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Collection and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Collection. At July 31, 2014 and 2013, the balance of permanently restricted net assets that is restricted for the purchase of accessioned art is $1,550,100 and $1,586,454, respectively. Earnings and losses from the investment of permanently restricted net assets are used to support operations.

Program services -

The Collection's programmatic activities include those associated primarily with the preservation and exhibition of the collection, such as curatorial, conservation, registrar, and library functions. A second category includes those activities designed to inform the public about the collection and its history, such as education, communications, publications, and the music program. The Center for the Study of Modern Art (CSMA), a research arm of the Museum, is the third major category of programmatic activity. Lastly, the Museum includes visitor amenities and services associated with its public outreach under the programmatic heading.

Spending rate methodology -

The Collection uses a spending rate methodology to determine the amount of endowment investment income included in operating revenue as described in the total return policy. Endowment investment income in excess of the spending rate is reported as a non-operating activity. In addition, activities relating to the bond and the Collection's buildings and improvements are reported as non-operating income or expense.

Operating activities are defined to encompass transactions that relate directly to the mission of the Collection. These included soliciting contributions and sponsoring museum programs.

Gifts, grants and corporate support -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Expenses for member trips and the gala fundraiser that are direct benefits to the donors are netted against the respective revenue in gifts, grants and corporate support. Member trip expenses totaled $24,244 and $85,375 for the years ended July 31, 2014 and 2013, respectively. The direct expenses associated with the gala fundraiser for the years ended July 31, 2014 and 2013, are $298,773 and $335,592, respectively.

Contributed services and materials -

Contributed services and materials are recorded at their estimated fair value at the date of the donation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Fees from Exhibitions and loaned art -

Fees from exhibitions and loaned art reflect gross loan and exhibition participation fees as well as organization fees reimbursed by the venues to which the exhibitions travel, less the direct transportation costs incurred by the museum to enable the works to travel. Such costs include shipping, crating, and courier expenses. For the years ended July 31, 2014 and 2013, the transportation expenses totaled $363,845 and $99,467, respectively.

Shop revenue -

Shop revenue is recorded net of cost of goods sold, and includes shipping revenue on customer mail orders. Shipping and handling costs for customer orders are included in administrative program expenses in the accompanying Statements of Activities and Changes in Net Assets and Statements of Functional Expenses.

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Collection invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair value measurement -

The Collection adopted the provisions of FASB ASC 820, *Fair Value Measurement.* FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Collection accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments, at readily determinable fair value, consisted of the following at July 31, 2014 and 2013:

	Fair Value	
	2014	2013
Money market funds	$ 322,372	$ 410,362
Fixed income and blended mutual funds	3,335,437	6,166,596
Domestic equity mutual funds	2,729,706	1,521,635
International equity mutual funds	6,033,856	5,596,467
Global equity mutual funds	2,368,474	3,651,008
TIFF multi-asset fund	1,750,706	2,503,196
Alternative funds	40,355,637	32,819,434
TOTAL INVESTMENTS	**$ 56,896,188**	**$ 52,668,698**

Subsequent to July 31, 2014, the fair market value of the investment portfolio has increased approximately $180,000 as a result of current economic conditions.

The Collection has been admitted as a limited partner in several private equity funds. Under the terms of the partnership agreements, the Collection is required to contribute $10,546,176 of total capital to the partnerships as of July 31, 2014. Included is a commitment of 400,000 Euros ($546,176 as of July 31, 2014).

The actual USD commitment is based upon the exchange rate at the time of the capital calls. Capital contributions are due and payable when requested by the partnerships. As of July 31, 2014, the Collection had contributed a total of $6,943,537. The remaining capital commitment of $3,602,639 at July 31, 2014 will be paid when requested by the partnerships.

Alternative investments within the portfolio are comprised of the following at July 31, 2014:

Investment Type	Amount	Redemption Period	Liquidity
Private equity	$ 4,771,110	None	End of partnership
Private equity	1,563,618	Annual	June 30, 2015
Flexible capital	4,565,320	18 Months	December 31, 2014- June 30, 2015
Flexible capital	10,102,446	Annual	December 31, 2014- March 31, 2015
Flexible capital	14,941,628	Quarterly	September 30, 2014- June 30, 2015
Flexible capital	4,411,515	Monthly	August 30, 2014- April 30, 2015
ALTERNATIVE INVESTMENTS	**$ 40,355,637**		

2. INVESTMENTS (Continued)

Alternative investments within the portfolio are comprised of the following at July 31, 2013:

Investment Type	Amount	Redemption Period	Liquidity
Private equity	$ 5,324,544	None	End of partnership
Flexible capital	3,836,443	18 Months	June 30, 2014-December 31, 2014
Flexible capital	12,022,500	Annual	September 30, 2013-December 31, 2014
Flexible capital	10,434,473	Quarterly	September 30, 2013-March 31, 2015
Flexible capital	1,201,474	Monthly	September 30, 2013
ALTERNATIVE INVESTMENTS	**$ 32,819,434**		

The Collection received proceeds of $17,495,992 and $8,227,497 on the sale of long-term investments during the years ended July 31, 2014 and 2013, respectively.

Investment earnings from endowment investments, less the calculated draw for operations (see Note 1), are recorded as non-operating investment earnings in the Statements of Activities and Changes in Net Assets.

The following summarizes total investment income and how it is reported based on the total return policy in the Statements of Activities and Changes in Net Assets for the year ended July 31, 2014:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 6,466	$ 610,095	$ 616,561
Net realized and unrealized gain	1,622	5,576,870	5,578,492
Less: Investment fees	-	(193,020)	(193,020)
TOTAL INVESTMENT INCOME	**$ 8,088**	**$ 5,993,945**	**$ 6,002,033**

	Unrestricted	Temporarily Restricted	Total
As Reported in the Statements of Activities and Changes in Net Assets:			
Earnings included in other revenue	$ 8,088	$ -	$ 8,088
Endowment earnings transfer	2,120,378	-	2,120,378
Non-operating investment earnings	-	3,873,567	3,873,567
Transfer to eliminate deficiency	1,935,053	(1,935,053)	-
Non-operating release of endowment earnings for campaign expenses	154,250	(154,250)	-
	$ 4,217,769	**$ 1,784,264**	**$ 6,002,033**

2. INVESTMENTS (Continued)

The following summarizes total investment income and how it is reported based on the total return policy in the Statements of Activities and Changes in Net Assets for the year ended July 31, 2013:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	$ 458,023	$ 153,013	$ 611,036
Net realized and unrealized gain	4,490,405	1,049,302	5,539,707
Less: Investment fees	(120,713)	(6,910)	(127,623)
TOTAL INVESTMENT INCOME	**$ 4,827,715**	**$ 1,195,405**	**$ 6,023,120**

	Unrestricted	Temporarily Restricted	Total
As Reported in the Statements of Activities and Changes in Net Assets:			
Earnings included in other revenue	$ 2,820	$ -	$ 2,820
Endowment earnings for operations	2,067,346	-	2,067,346
Non-operating investment earnings	2,757,549	1,195,405	3,952,954
	$ 4,827,715	**$ 1,195,405**	**$ 6,023,120**

3. TRADE, GIFTS, GRANTS AND PLEDGES RECEIVABLE

The Collection receives promises to contribute from donors. Promises to contribute primarily consist of pledges, bequests, grants, and charitable remainder trusts.

Promises to contribute related to the CSMA campaign were recorded as temporarily restricted revenue. Promises to contribute related to the Collection’s endowment campaign are recorded as permanently restricted revenue. Management periodically reviews the status of all pledge receivable balances for collectability.

Each receivable balance is assessed based on management's knowledge of the donor, relationship with the donor, and the age of the receivable balance. The loss on uncollectible pledges recorded in gifts, grants and corporate support in the Statements of Activities and Changes in Net Assets totaled $69,294 and $58,106 for the years ended July 31, 2014 and 2013, respectively.

All pledges receivable due in more than one year have been discounted to their net present value at July 31, 2014 and 2013. The discount rates range from 0.68% to 6.00% and are determined using the U.S. Treasury Daily Treasury Yield Curve Rate for the term closest to time period of expected receipt on the day the Collection was notified of the pledge.

3. TRADE, GIFTS, GRANTS AND PLEDGES RECEIVABLE (Continued)

Trade, gifts, grants, and pledges receivables are due as follows at July 31, 2014 and 2013:

	2014	2013
Less than one year	$ 1,188,316	$ 1,772,975
One to five years	2,001,746	1,675,184
Beyond five years	250,000	250,000
Total trade, gifts, grants and pledges receivables	3,440,062	3,698,159
Less: Present value discount	(222,668)	(215,336)
Less: Allowance for doubtful pledges	(6,628)	(46,613)
TOTAL RECEIVABLES	**$ 3,210,766**	**$ 3,436,210**

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at July 31, 2014 and 2013:

	2014	2013
Land	$ 833,240	$ 833,240
Buildings	42,756,150	42,756,150
Equipment	3,596,227	3,413,557
Total property and equipment	47,185,617	47,002,947
Less: Accumulated depreciation and amortization	(17,234,372)	(16,047,401)
PROPERTY AND EQUIPMENT, NET	**$ 29,951,245**	**$ 30,955,546**

Included in the cost basis of the property and equipment at July 31, 2014 and 2013 is $1,463,005 of permanently restricted fixed assets. These fixed assets may not be sold or disposed of by the Collection and are considered to be an historical asset as it represents the location of the first museum of modern art in America. As such, in accordance with FASB ASC 360, *Fixed Assets*, the Collection does not depreciate these items because the economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.

Depreciation and amortization expense for unrestricted fixed assets consisted of the following for the years ended July 31, 2014 and 2013:

	2014	2013
Depreciation of operating assets	$ 159,502	$ 163,164
Depreciation of non-operating assets	1,027,469	1,028,884
TOTAL DEPRECIATION AND AMORTIZATION	**$ 1,186,971**	**$ 1,192,048**

5. ART COLLECTION

Works of art in the Museum's collection are not recognized as assets on the Statements of Financial Position. Purchases of art are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and are recorded as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets.

5. ART COLLECTION (Continued)

Contributions of collection items are not recognized in the Statements of Activities and Changes in Net Assets; however, certain contributions are recorded as increases in temporarily restricted net assets if a donor makes a contribution intended to fund the subsequent purchase of art. Proceeds from the sale of deaccessions or insurance recoveries are reflected on the Statements of Activities and Changes in Net Assets based on the absence or existence and nature of donor-imposed restrictions. There were no deaccessions during each of the years ended July 31, 2014 and 2013.

6. LINE OF CREDIT

The Collection has an unsecured line of credit payable to a bank with a $3,000,000 limit. The line expires on November 1, 2014. The line bears an interest rate of LIBOR plus 1.5%. The interest rate at July 31, 2014 and 2013 was 1.7%. Outstanding balances under the line of credit agreement for the years ended July 31, 2014 and 2013 were $630,529 and $1,280,529, respectively. Interest expense on the line of credit of $23,648 and $23,963 is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets during the years ended July 31, 2014 and 2013, respectively.

7. CAPITAL LEASE OBLIGATION

The Collection leases certain office equipment that has been capitalized and included in property and equipment in the Statements of Financial Position.

The equipment obtained under capital leases consisted of the following at July 31, 2014 and 2013:

	2014	2013
Cost	$ 274,881	$ 274,881
Less: Accumulated amortization	(265,663)	(202,878)
	$ 9,218	**$ 72,003**

Future minimum lease payments under capital lease obligations at July 31, 2014 are as follows:

Year ending 2015	$ 3,459
Less: Interest	(10)
CAPITAL LEASE OBLIGATION	**$ 3,449**

Interest expense for the years ended July 31, 2014 and 2013 was $1,387 and $4,539, respectively.

8. LONG-TERM FINANCING

In July 2003, the District of Columbia (the District) issued $27,000,000 in revenue bonds, the proceeds of which were loaned to the Collection for the acquisition, renovation and equipping of the property at 1618 21st Street, N.W., Washington, D.C. The bonds were issued in two tranches representing different repayment schedules. The term of the bonds was to end in 2030.

8. LONG-TERM FINANCING (Continued)

In order to facilitate the issuance and marketability of the bonds, the Collection obtained an irrevocable letter of credit which, with subsequent extensions, was set to expire in July 2016. Obligations of the bonds are paid first from the letter of credit and then reimbursed by the Collection from the Collection's reserves. The bonds bore interest at a weekly rate, to be determined by the Remarketing Agent. Interest and bank fees incurred on the bond were capitalized as a development cost until the property at 1618 21st Street was completed and available for use, which occurred during 2006.

On November 1, 2012, the Collection restructured this debt by converting these bonds to a direct purchase mode financing. The Collection, through the District, remarketed the remaining $12,465,000 of variable-rate bonds to a single purchaser for a 10-year loan with a fixed interest rate of 2.9%. Fixed monthly payments are $75,758 with a declining principal balance. On November 1, 2022, the remaining principal balance of $6,181,875 on the loan will be due and payable. The Collection will either be required to pay off the balance or obtain additional financing.

With the restructuring, the Remarketing Agreement and the letter of credit were terminated. Existing swaps were also terminated and a variable rate term loan was obtained through the same purchaser to finance the termination costs. This 10-year term loan with an original balance of $1,399,000 is paid in monthly installments of $11,658 plus interest at a variable rate of LIBOR plus 200 bps. The interest rate at July 31, 2014 and 2013 was 2.1552% and 2.1958%, respectively.

At July 31, 2014, the Collection's future maturities on the refinancing are as follows:

Year Ending July 31,	Bonds Payable	Note Payable	Total
2015	$ 582,393	$ 139,900	$ 722,293
2016	599,508	139,900	739,408
2017	617,127	139,900	757,027
2018	635,264	139,900	775,164
2019	653,933	139,900	793,833
2020 and Thereafter	8,442,835	466,333	8,909,168
TOTAL	**$ 11,531,060**	**$ 1,165,833**	**$ 12,696,893**

Long-term financing interest and fees for the years ending July 31, 2014 and 2013 are as follows:

	2014	2013
Long-Term Financing Expenses:		
Bondholder interest	$ 341,960	$ 281,041
Interest rate swap	-	82,203
Term loan interest	26,992	22,587
Letter of credit fees	-	11,208
Other fees	1,500	23,048
	370,452	420,087
Other Bond Related Expenses:		
Legal fees	551	183,385
Professional services	500	29,477
Business expense	-	656
TOTAL LONG-TERM FINANCING EXPENSES	**$ 371,503**	**$ 633,605**

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at July 31, 2014 and 2013:

	2014	2013
Program services	$ 22,776,482	$ 21,315,904
Time restricted	1,113,965	1,432,000
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 23,890,447**	**$ 22,747,904**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2014	2013
Program services	$ 1,345,417	$ 1,417,438
Passage of time	557,000	408,161
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 1,902,417**	**$ 1,825,599**
TOTAL NON-OPERATING NET ASSETS RELEASED FROM RESTRICTION	**$ 3,201,759**	**$ 1,442,515**

10. CONTRIBUTED SERVICES AND MATERIALS

During the years ended July 31, 2014 and 2013, the Collection was the beneficiary of donated goods and services consisting primarily of legal and program administration services for membership, communications, visitor services and education.

The fair value of these goods and services was estimated to be $432,972 and $393,618 for the years ended July 31, 2014 and 2013, respectively.

11. LEASE COMMITMENTS

The Collection is committed under a noncancelable operating lease for storage space. The lease was extended in August 2011 and expires September 30, 2016.

The following is a schedule of the future minimum lease payments:

Year Ending July 31,	
2015	$ 47,007
2016	48,885
2017	8,280
	$ 104,172

Rent expense for the years ended July 31, 2014 and 2013 was $47,035 and $47,117, respectively.

12. RETIREMENT PLAN

The Collection sponsors a defined contribution 403(b) retirement plan available to any employee who meets certain age and length of service requirements. The plan allows for employer contributions of up to 7.4% of participant annual compensation. The Collection's contributions under the plan amounted to $243,251 and $238,767 for the years ended July 31, 2014 and 2013, respectively.

13. COMMITMENTS AND CONTINGENCIES

The Collection receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2009. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits. For the years ended July 31, 2014 and 2013, the Collection did not meet the requirements to be subject to an audit under the provisions of OMB Circular A-133.

The Collection has entered into a ten-year consulting contract with the former Director of the Museum who retired during 2008. The contract requires quarterly payments of $7,500 for services to be performed by the former Director. The contract ends June 30, 2018.

14. SPLIT-INTEREST AGREEMENTS

The Collection has been named as a beneficiary in two charitable remainder trusts. Each trust pays its donor an annual amount equal to 5% of the net fair market value of the trust assets. Upon the donor's death, the remaining assets in the trust are distributed to the named charitable organizations in the manner specified in the trust document.

The assets of these trusts are held by an outside trustee and consist of a mixture of fixed income and equity securities. The Collection records its interest in this charitable remainder trust as a contribution receivable, equal to the estimated future cash receipts, discounted at 6% over the expected life of each donor.

During the year ended July 31, 2013, the donor of one of the trusts died. The proceeds of that trust totaled $665,065, of which $121,198 was recorded as revenue in gifts, grants, and corporate support on the Statements of Activities and Changes in Net Assets with the balance relieving the receivable.

At July 31, 2014 and 2013, the present value of the Collection's interest in the remaining trust was $675,142 and $631,513, respectively and is recorded in receivables. The change in value of this remaining split interest agreement for the years ended July 31, 2014 and 2013 was $43,628 and $82,188 respectively and is included in gifts, grants, and corporate support on the Statements of Activities and Changes in Net Assets.

The Collection administers various gift annuity agreements. A gift annuity agreement provides for the payment of distributions to the grantor or other designated beneficiaries over the annuity’s term (usually the designated beneficiary’s lifetime). At the end of the annuity’s term, the remaining assets are available for the Collection’s use.

14. SPLIT-INTEREST AGREEMENTS (Continued)

The portion of the annuity attributable to the present value of the future benefits to be received by the Collection is recorded in the Statements of Activities and Changes in Net Assets as a permanently restricted contribution in the period the annuity is established. There were no such contributions during the years ended July 31, 2014 and 2013. On an annual basis, the Collection revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions.

The total present value of the liability for future payments of principal at July 31, 2014 and 2013, was $160,605 and $179,805, respectively, using discount rates ranging from 3.4% to 7.4% and the applicable mortality tables.

15. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Collection has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Collection has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at July 31, 2014 and 2013.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.

- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

- *Interests in hedge funds, limited partnerships, private equity funds* - These instruments do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships.

15. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Collection's investments as of July 31, 2014:

	Level 1	Level 2	Level 3	Total July 31, 2014
Financial Assets:				
Money market funds	$ 322,372	$ -	$ -	$ 322,372
Fixed income and blended mutual funds	1,821,862	1,513,575	-	3,335,437
Domestic equity mutual funds	2,729,706	-	-	2,729,706
International equity mutual funds	6,033,856	-	-	6,033,856
Global equity mutual funds	2,368,474	-	-	2,368,474
TIFF multi-asset fund	1,750,706	-	-	1,750,706
Alternative funds	-	-	40,355,637	40,355,637
TOTAL	$ 15,026,976	$ 1,513,575	$ 40,355,637	$ 56,896,188

The table below summarizes, by level within the fair value hierarchy, the Collection's investments as of July 31, 2013:

	Level 1	Level 2	Level 3	Total July 31, 2013
Financial Assets:				
Money market funds	$ 410,362	$ -	$ -	$ 410,362
Fixed income and blended mutual funds	4,726,411	1,440,185	-	6,166,596
Domestic equity mutual funds	1,521,635	-	-	1,521,635
International equity mutual funds	5,596,467	-	-	5,596,467
Global equity mutual funds	3,651,008	-	-	3,651,008
TIFF multi-asset fund	2,503,196	-	-	2,503,196
Alternative funds	-	-	32,819,434	32,819,434
TOTAL	$ 18,409,079	$ 1,440,185	$ 32,819,434	$ 52,668,698

Level 3 Financial Assets

The following table provides a summary of changes in fair value of the Collection's Level 3 financial assets for the year ended July 31, 2014:

	Private Equity	Other Alternatives	Total
Beginning balance as of July 31, 2013	$ 5,324,544	$ 27,494,890	$ 32,819,434
Purchases and capital calls	955,021	11,132,389	12,087,410
Sales and distributions	(1,136,717)	(8,055,941)	(9,192,658)
Gain on sales	72,523	2,468,396	2,540,919
Unrealized gains	1,119,357	981,175	2,100,532
BALANCE AS OF JULY 31, 2014	$ 6,334,728	$ 34,020,909	$ 40,355,637

15. FAIR VALUE MEASUREMENT (Continued)

The following table provides a summary of changes in fair value of the Collection's Level 3 financial assets for the year ended July 31, 2013:

	Private Equity	Other Alternatives	Total
Beginning balance as of July 31, 2012	$ 4,527,693	$ 25,562,155	$ 30,089,848
Purchases and capital calls	982,941	2,600,000	3,582,941
Sales and distributions	(357,262)	(4,656,713)	(5,013,975)
Gain on sales	5,470	292,832	298,302
Unrealized gains	165,702	3,696,616	3,862,318
BALANCE AS OF JULY 31, 2013	**$ 5,324,544**	**$ 27,494,890**	**$ 32,819,434**

As of July 31, 2014, the Collection's individual investment funds which exceed 5% of net assets are:

Type of Investment	Fair Value	Fair Value as a % of Net Assets
Alternative investments - Flexible capital	$ 4,565,320	6.0%
Alternative investments - Flexible capital	$ 4,251,665	5.6%

As of July 31, 2013, the Collection's individual investment funds which exceed 5% of net assets are:

Type of Investment	Fair Value	Fair Value as a % of Net Assets
Alternative investments - Flexible capital	$ 3,836,443	5.3%
Alternative investments - Flexible capital	$ 3,945,685	5.5%
Alternative investments - Flexible capital	$ 4,184,695	5.8%
Alternative investments - Flexible capital	$ 4,202,523	5.9%

16. ENDOWMENT

The Collection's endowment (the Fund) consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees 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 Collection 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.

16. ENDOWMENT (Continued)

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 Collection in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, and at such time as the museum has accumulated earnings in the Fund which are in excess of the total of the original gifts, the Board of Trustees will consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Changes in endowment net assets by type of fund for the year ended July 31, 2014 as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (1,935,053)	$ -	$ 34,258,981	$ 32,323,928
Net investment earnings	-	5,088,700	-	5,088,700
Net investment earnings credited to unrestricted deficiency	1,935,053	(1,935,053)	-	-
Contributions at present value	-	-	2,143,324	2,143,324
Appropriations of endowment assets for expenditures	-	(2,316,429)	-	(2,316,429)
Art acquisitions	-	-	(36,354)	(36,354)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 837,218**	**$ 36,365,951**	**$ 37,203,169**

Changes in endowment net assets by fund type for the year ended July 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,489,087)	$ -	$ 34,173,961	$ 29,684,874
Net investment earnings	4,844,886	-	-	4,844,886
Contributions at present value	-	-	137,235	137,235
Appropriation of endowment assets for expenditure	(2,290,852)	-	-	(2,290,852)
Art acquisitions	-	-	(52,215)	(52,215)
ENDOWMENT NET ASSETS, END OF YEAR	**$ (1,935,053)**	**$ -**	**$ 34,258,981**	**$ 32,323,928**

16. ENDOWMENT (Continued)

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 Collection to retain.

In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0 and $1,935,053 as of July 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of permanently restricted contributions.

Return Objectives and Risk Parameters -

The Collection has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to activities supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to generate a total return that will exceed not only the museum's operating requirements, but also all expenses associated with managing the Fund and the eroding effects of inflation. It is the intention that all total return (interest income, dividends, realized gains, and unrealized gains), above and beyond the amount approved for expenditure or distribution, will be reinvested. The assets will be managed on a total return basis, consistent with the applicable standard of conduct set forth in the Uniform Prudent Management of Institutional Funds Act.

Strategies Employed for Achieving Objectives -

To achieve its investment objective, the endowment assets will be allocated among several asset classes with a bias toward equity and equity-like investments due to their higher long-term return expectations. Other asset classes have and may be added to the portfolio to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set.

The portfolio will be diversified both by and within asset classes. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total portfolio. As a result, the risk level associated with the portfolio investment is reduced.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Collection has a policy of appropriating for distribution to operations each year 5% of its endowment fund's average fair value calculated by averaging the quarter end values of the two full prior fiscal years and the current fiscal year through the third quarter. In establishing this policy, the Collection considered the long-term expected return on its endowment.

The Board may authorize special exceptions to this policy. Actual cash withdrawals are based on this budgeted amount and may be made at staff's discretion subject to a) the operating requirements of the museum, b) the market conditions affecting investment holdings, and c) anticipated cash flow from other sources. The Board has currently authorized an exception to the policy permitting budgeted capital campaign expenses to be funded by an endowment distribution on an annual approved basis, with the assumption that any such expenditures will be recouped by raising the campaign endowment fundraising goal.

17. SUBSEQUENT EVENTS

In preparing these financial statements, the Collection has evaluated events and transactions for potential recognition or disclosure through November 25, 2014, the date the financial statements were issued.