FINANCIAL STATEMENTS

THE PHILLIPS COLLECTION

FOR THE YEARS ENDED
JULY 31, 2018 AND 2017

THE PHILLIPS COLLECTION

CONTENTS

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, 2018 and 2017, 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, 2018 and 2017, 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 14, 2018

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THE PHILLIPS COLLECTION

STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	$ 1,197,839	$ 5,314,883
Receivables (Notes 3 and 14):		
Trade	64,002	635,562
Gifts and grants	3,072,951	4,319,956
Pledges - CSMA campaign, net	713,681	664,248
Pledges - endowment	6,173,788	10,195,422
Total receivables	10,024,422	15,815,188
Merchandise inventory	321,136	303,339
Prepaid expenses (Note 11)	386,905	436,298
Property and equipment, net of accumulated depreciation and amortization of $16,300,463 and $18,352,288 in 2018 and 2017, respectively (Notes 4 and 7)	32,493,863	27,980,092
Investments (Notes 2 and 15)	67,806,502	61,588,830
TOTAL ASSETS	**$112,230,667**	**$111,438,630**

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Line of credit (Note 6)	$ 140,000	$ 265,000
Accounts payable and accrued expenses	637,513	1,517,933
Accrued compensation	582,028	414,060
Deferred revenue	471,183	518,397
Capital lease obligation (Note 7)	136,448	50,621
Gift annuity debt (Note 14)	95,373	100,431
HVAC loan payable (Note 8)	4,000,000	4,000,000
Note payable (Note 8)	606,234	746,134
Bonds payable (Note 8)	8,952,930	9,579,732
Total liabilities	15,621,709	17,192,308
NET ASSETS		
Unrestricted	17,900,849	16,072,081
Temporarily restricted (Note 9)	24,491,002	25,777,807
Permanently restricted (Notes 4 and 16)	54,217,107	52,396,434
Total net assets	96,608,958	94,246,322
TOTAL LIABILITIES AND NET ASSETS	**$112,230,667**	**$111,438,630**

THE PHILLIPS COLLECTION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Gifts, grants and corporate support, net of expenses of $312,046 and $368,572 in 2018 and 2017, respectively (Notes 3 and 14)	$ 3,794,662	$ 3,059,459	$ 1,830,264	$ 8,684,385
Fees from exhibitions and loaned art, net of expenses of $309,993 and $381,288 in 2018 and 2017, respectively	846,781	-	-	846,781
Admissions	669,625	-	-	669,625
Shop revenue, net of cost of goods sold of $429,737 and $452,278 in 2018 and 2017, respectively	444,671	-	-	444,671
Other revenue (Note 2)	196,482	-	-	196,482
Contributed services and materials (Note 10)	358,931	-	-	358,931
Endowment earnings transfer (Note 2)	2,589,094	-	-	2,589,094
Net assets released from donor restrictions (Note 9)	3,116,942	(3,116,942)	-	-
Total revenue	12,017,188	(57,483)	1,830,264	13,789,969
EXPENSES				
Personnel (Note 12)	7,087,440	-	-	7,087,440
Exhibitions	1,168,139	-	-	1,168,139
Contractual services	503,193	-	-	503,193
Insurance	286,639	-	-	286,639
Utilities	595,168	-	-	595,168
Other facility costs (Note 8 and 11)	793,744	-	-	793,744
Administrative expenses (Notes 6 and 7)	526,428	-	-	526,428
Printing and publications	148,931	-	-	148,931
Information technology expenses	237,621	-	-	237,621
Fundraising activities and institutional events	206,870	-	-	206,870
Marketing and advertising	96,463	-	-	96,463
Contributed services and materials (Note 10)	358,931	-	-	358,931
Total expenses	12,009,567	-	-	12,009,567
Changes in net assets from operations before other items	7,621	(57,483)	1,830,264	1,780,402
OTHER ITEMS				
Non-operating investment earnings (Note 2)	-	3,438,993	-	3,438,993
Non-operating net assets released from restriction (Note 9)	4,759,849	(4,759,849)	-	-
Gifts, grants, and corporate support for HVAC	-	91,534	-	91,534
Fees from exhibitions and loaned art due to HVAC	-	-	-	-
Long-term financing expenses (Note 8)	(324,716)	-	-	(324,716)
Depreciation of non-operating assets (Note 4)	(1,019,008)	-	-	(1,019,008)
Art collection acquisitions (Note 5)	(72,275)	-	(9,591)	(81,866)
Transfer of investment deficiency (Notes 2 and 16)	-	-	-	-
Campaign expenses	(286,768)	-	-	(286,768)
House renovation expenses	(46,074)	-	-	(46,074)
Loss on disposal of non-operating assets (Note 4)	(1,189,861)	-	-	(1,189,861)
Changes in net assets	1,828,768	(1,286,805)	1,820,673	2,362,636
Net assets at beginning of year	16,072,081	25,777,807	52,396,434	94,246,322
NET ASSETS AT END OF YEAR	$ 17,900,849	$ 24,491,002	$ 54,217,107	$ 96,608,958

See accompanying notes to financial statements.

2017			
Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
$ 4,180,498	$ 1,748,825	$ 2,817,060	$ 8,746,383
912,842	-	-	912,842
763,945	-	-	763,945
445,611	-	-	445,611
240,803	-	-	240,803
501,799	-	-	501,799
2,392,160	-	-	2,392,160
2,526,201	(2,526,201)	-	-
11,963,859	(777,376)	2,817,060	14,003,543
6,914,853	-	-	6,914,853
1,238,494	-	-	1,238,494
623,270	-	-	623,270
284,911	-	-	284,911
591,779	-	-	591,779
541,768	-	-	541,768
538,433	-	-	538,433
160,414	-	-	160,414
262,394	-	-	262,394
209,678	-	-	209,678
69,900	-	-	69,900
501,799	-	-	501,799
11,937,693	-	-	11,937,693
26,166	(777,376)	2,817,060	2,065,850
-	5,067,562	-	5,067,562
1,321,228	(1,321,228)	-	-
-	1,066,523	-	1,066,523
1,000,000	-	-	1,000,000
(322,404)	-	-	(322,404)
(1,019,008)	-	-	(1,019,008)
(51,400)	-	(40,289)	(91,689)
2,467,575	(2,467,575)	-	-
(257,531)	-	-	(257,531)
-	-	-	-
-	-	-	-
3,164,626	1,567,906	2,776,771	7,509,303
12,907,455	24,209,901	49,619,663	86,737,019
$ 16,072,081	**$ 25,777,807**	**$ 52,396,434**	**$ 94,246,322**

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2018

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total Expenses
Personnel (Note 12)	$ 4,357,232	$ 1,622,720	$ 1,107,488	$ 7,087,440
Exhibitions	1,167,974	105	60	1,168,139
Contractual services	344,194	138,340	20,659	503,193
Insurance	185,000	101,639	-	286,639
Utilities	8,217	586,951	-	595,168
Other facility costs (Note 8 and 11)	153,173	639,934	637	793,744
Administrative expenses (Notes 6 and 7)	314,440	142,225	69,763	526,428
Printing and publications	99,394	23,858	25,679	148,931
Information technology expenses	73,090	158,798	5,733	237,621
Fundraising activities and institutional events	126,040	20,833	59,997	206,870
Marketing and advertising	87,351	9,112	-	96,463
Contributed goods and services (Note 10)	154,202	77,912	126,817	358,931
Sub-total	7,070,307	3,522,427	1,416,833	12,009,567
Overhead allocation	2,547,735	(2,836,274)	288,539	-
TOTAL	**$ 9,618,042**	**$ 686,153**	**$ 1,705,372**	**$ 12,009,567**

THE PHILLIPS COLLECTION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JULY 31, 2017

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total Expenses
Personnel (Note 12)	$ 4,357,003	$ 1,520,946	$ 1,036,904	$ 6,914,853
Exhibitions	1,237,671	404	419	1,238,494
Contractual services	436,038	169,922	17,310	623,270
Insurance	195,163	89,748	-	284,911
Utilities	6,565	585,214	-	591,779
Other facility costs (Note 8 and 11)	44,976	496,635	157	541,768
Administrative expenses (Notes 6 and 7)	345,809	121,113	71,511	538,433
Printing and publications	104,346	27,105	28,963	160,414
Information technology expenses	55,134	193,621	13,639	262,394
Fundraising activities and institutional events	112,350	31,711	65,617	209,678
Marketing and advertising	69,380	520	-	69,900
Contributed goods and services (Note 10)	334,451	70,657	96,691	501,799
Sub-total	7,298,886	3,307,596	1,331,211	11,937,693
Overhead allocation	2,423,230	(2,680,505)	257,275	-
TOTAL	**$ 9,722,116**	**$ 627,091**	**$ 1,588,486**	**$ 11,937,693**

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,362,636	$ 7,509,303
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,147,121	1,143,180
Amortization of bond issuance costs	8,461	8,461
Unrealized loss on investments	3,421,965	4,480,360
Realized gain on investments	(8,905,535)	(11,622,955)
Loss on disposal of property and equipment	1,189,861	-
Contributions under gift annuity agreements	6,567	(19,112)
Amortization of discount on gift annuity agreements	-	(2,205)
Art acquisitions	81,866	91,689
Change in discount on gifts, and grants receivables	(22,450)	(30,181)
Change in discount on CSMA campaign and endowment pledges receivable	(127,260)	(150,211)
Decrease (increase) in:		
Trade, gifts and grants receivables	1,841,015	149,518
CSMA campaign and endowment pledges receivable	4,099,461	2,977,625
Merchandise inventory	(17,797)	(3,320)
Prepaid expenses	49,393	(6,840)
(Decrease) increase in:		
Accounts payable and accrued expenses	(880,420)	415,581
Accrued compensation	167,968	61,933
Deferred revenue	(47,214)	165,020
Net cash provided by operating activities	4,375,638	5,167,846
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of investments	(734,102)	(2,280,909)
Purchase of property and equipment	(6,739,286)	(1,355,389)
Art acquisitions	(81,866)	(91,689)
Net cash used by investing activities	(7,555,254)	(3,727,987)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on line of credit	2,325,000	820,000
Payments on line of credit	(2,450,000)	(555,000)
Payments on capital lease obligations	(25,640)	(24,691)
Payments under gift annuity agreements	(11,625)	(9,934)
Proceeds on long term financing	-	4,000,000
Payments on long term financing	(775,163)	(757,026)
Net cash (used) provided by financing activities	(937,428)	3,473,349
Net (decrease) increase in cash and cash equivalents	(4,117,044)	4,913,208
Cash and cash equivalents at beginning of year	5,314,883	401,675
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,197,839	$ 5,314,883

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018	2017
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 524,918	$ 386,130
Equipment Acquired Under Capital Lease	$ 141,199	$ -

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 Financial Accounting Standards Board (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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, the Collection maintains cash balances at financial institutions in excess of the FDIC limits. Management believes the risk in these situations to be minimal.

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 net realizable value which approximates 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, consists of merchandise held for resale by the Collection's Museum Shop. During the year ended July 31, 2018, the Collection adopted FASB ASU 2015-11, *Simplifying the Measurement of Inventory* and applied prospectively. As such, inventory is stated at the lower of cost or net realizable 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.

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

Investments (continued) -

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

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.

Impairment of long lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statements of Activities and Changes in Net Assets, to its current fair value.

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 unrelated business income taxes of $2,429 with the State of Oregon, and the minimum $250 tax was paid to the District of Columbia, for the year ended July 31, 2017. For the year ended July 31, 2018, management does not anticipate any material unrelated business income subject to tax. As a result, no estimated taxes have been paid.

Uncertain tax positions -

For the years ended July 31, 2018 and 2017, 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.

Deferred revenue -

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

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

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.

- **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, 2018 and 2017, the balance of permanently restricted net assets that is restricted for the purchase of accessioned art is $1,324,530 and $1,334,121, 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 University of Maryland Center for Art and Knowledge at The Phillips Collection, a research and academic 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.

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

Gifts, grants and corporate support (continued) -

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 $282 and $74,227 for the years ended July 31, 2018 and 2017, respectively. The direct expenses associated with the gala fundraiser for the years ended July 31, 2018 and 2017, are $268,038 and $274,775, respectively. Additionally, the Collection recorded bad debt expenses totaling $43,726 and $19,570 for the years ended July 31, 2018 and 2017, respectively.

Contributed services and materials -

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

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 and insurance costs incurred by the museum to enable the works to travel. Such transportation costs include shipping, crating, and courier expenses. For the years ended July 31, 2018 and 2017, the transportation and insurance expenses totaled $309,993 and $381,288, 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.

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

Risks and uncertainties (continued) -

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.

In 2015, the FASB issued ASU 2015-07, *Fair Value Measurement*. The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. During the year ended July 31, 2018, the Collection adopted the new guidance and applied it retrospectively.

New accounting pronouncements not yet adopted -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Collection's financial statements, it is not expected to alter the Collection's reported financial position.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Collection has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

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

New accounting pronouncements not yet adopted (continued) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Collection has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Early adoption of the above ASUs is permitted and should be applied retrospectively in the year they are first applied.

The Collection plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at July 31, 2018 and 2017:

	Fair Value	
	2018	**2017**
Money market funds	$ 1,447,372	$ 1,687,510
Fixed income and blended mutual funds	5,894,745	5,456,362
Domestic equity mutual funds	15,721,493	12,713,028
International equity mutual funds	6,796,665	6,871,583
Global equity mutual funds	2,291,803	1,471,265
Alternative funds	35,654,424	33,389,082
TOTAL INVESTMENTS	**$ 67,806,502**	**$ 61,588,830**

Subsequent to July 31, 2018, the fair market value of the investment portfolio has increased approximately $500,000 as a result of 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 was required to contribute $17,726,234 of total capital to the partnerships as of July 31, 2018.

2. INVESTMENTS (Continued)

Capital contributions are due and payable when requested by the partnerships. As of July 31, 2018, the Collection had contributed a total of $11,988,007. The remaining capital commitment of $5,738,227 at July 31, 2018 will be paid when requested by the partnerships.

Alternative investments within the portfolio and are comprised of the following at July 31, 2018:

Investment Type	Amount	Uncalled Commitments	Redemption Period	Liquidity
Private equity	$ 7,134,084	$ 5,738,227	None	End of partnership
Private equity	1,672,929	-	Annual	June 30, 2019
Flexible capital	5,827,062	-	18 Months	December 31, 2018 - June 30, 2019
Flexible capital	2,445,854	-	Annual	December 31, 2018 - June 30, 2019
Flexible capital	1,266,465	-	Biannual	December 31, 2019
Flexible capital	9,407,591	-	Quarterly	September 30, 2018- December 31, 2018
Flexible capital	7,900,439	-	Monthly	September 30, 2018
ALTERNATIVE INVESTMENTS	**$ 35,654,424**	**$ 5,738,227**		

Alternative investments within the portfolio are comprised of the following at July 31, 2017:

Investment Type	Amount	Uncalled Commitments	Redemption Period	Liquidity
Private equity and alternative holdbacks	$ 6,683,076	$ 3,170,642	None	End of partnership or liquidation of assets
Private equity	1,521,167	-	Annual	June 30, 2018
Flexible capital	5,385,188	-	18 months	September 30, 2017- December 31, 2018
Flexible capital	4,574,448	-	Annual	December 31, 2017 - December 31, 2018
Flexible capital	9,181,203	-	Quarterly	September 30, 2017- December 31, 2017
Flexible capital	6,044,000	-	Monthly	August 31, 2017- September 30, 2017
ALTERNATIVE INVESTMENTS	**$ 33,389,082**	**$ 3,170,642**		

2. INVESTMENTS (Continued)

The Collection received proceeds of $18,253,169 and $11,432,592 on the sale of long-term investments during the years ended July 31, 2018 and 2017, 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 the components of investment income and shows how they are presented in the Statements of Activities and Changes in Net Assets for the year ended July 31, 2018:

	Unrestricted	Temporarily Restricted	Total
Endowment Investment:			
Interest and dividends	$ -	$ 742,751	$ 742,751
Net realized and unrealized gain	-	4,995,798	4,995,798
Less: Investment fees	-	(227,616)	(227,616)
	-	5,510,933	5,510,933
Other Investments:			
Interest and dividends	13,633	43,115	56,748
Net realized and unrealized gain	(5,462)	493,234	487,772
Less: Investment fees	-	(19,195)	(19,195)
	8,171	517,154	525,325
TOTAL INVESTMENT INCOME	**$ 8,171**	**$ 6,028,087**	**$ 6,036,258**

As Reported in the Statements of Activities and Changes in Net Assets:	Unrestricted	Temporarily Restricted	Total
Non-operating investment earnings:			
Endowment loss net of transfer for operations	$ -	$ 2,921,839	$ 2,921,839
Non-endowment gain	-	517,154	517,154
	-	3,438,993	3,438,993
Earnings included in other revenue	8,171	-	8,171
Endowment earnings transfer for operations	2,589,094	-	2,589,094
TOTAL NON-OPERATING INVESTMENT EARNINGS	**$ 2,597,265**	**$ 3,438,993**	**$ 6,036,258**
UNREALIZED ONLY	**$ (5,462)**	**$ 3,427,427**	**$ 3,421,965**

2. INVESTMENTS (Continued)

The following summarizes the components of investment income and shows how they are presented in the Statements of Activities and Changes in Net Assets for the year ended July 31, 2017:

	Unrestricted	Temporarily Restricted	Total
Endowment Investment:			
Interest and dividends	$ -	$ 482,628	$ 482,628
Net realized and unrealized gain	-	6,454,226	6,454,226
Less: Investment fees	-	(181,328)	(181,328)
	-	6,755,526	6,755,526
Other Investments:			
Interest and dividends	13,056	37,304	50,360
Net realized and unrealized gain	10	688,359	688,369
Less: Investment fees	-	(21,467)	(21,467)
	13,066	704,196	717,262
TOTAL INVESTMENT INCOME	$ 13,066	$ 7,459,722	$ 7,472,788

As Reported in the Statements of Activities and Changes in Net Assets:	Unrestricted	Temporarily Restricted	Total
Non-operating investment earnings:			
Endowment loss net of transfer for operations	$ -	$ 4,363,366	$ 4,363,366
Non-endowment gain	-	704,196	704,196
	-	5,067,562	5,067,562
Transfer of underwater investment deficiency	2,467,575	(2,467,575)	-
Earnings included in other revenue	13,066	-	13,066
Endowment earnings transfer for operations	2,392,160	-	2,392,160
TOTAL NON-OPERATING INVESTMENT (EARNINGS)	$ 4,872,801	$ 2,599,987	$ 7,472,788
UNREALIZED ONLY	$ 10	$ 4,480,350	$ 4,480,360

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 collectibility.

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

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 $41,226 and $20,020 for the years ended July 31, 2018 and 2017, respectively.

All pledges receivable due in more than one year have been discounted to their net present value at July 31, 2018 and 2017. The discount rates range from 0.19% 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.

Trade, gifts, grants, and pledges receivables are due as follows at July 31, 2018 and 2017:

	2018	2017
Less than one year	$ 2,886,235	$ 7,961,250
One to five years	2,710,313	3,748,685
Beyond five years	5,286,722	5,113,811
Total trade, gifts, grants and pledges receivables	10,883,270	16,823,746
Less: Present value discount	(852,220)	(1,001,930)
Less: Allowance for doubtful pledges	(6,628)	(6,628)
TOTAL RECEIVABLES	**$ 10,024,422**	**$ 15,815,188**

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at July 31, 2018 and 2017:

	2018	2017
Land	$ 833,240	$ 833,240
Buildings	45,708,073	42,491,773
Equipment	2,253,013	1,838,801
Construction in progress	-	1,168,566
Total property and equipment	48,794,326	46,332,380
Less: Accumulated depreciation and amortization	(16,300,463)	(18,352,288)
PROPERTY AND EQUIPMENT, NET	**$ 32,493,863**	**$ 27,980,092**

During the year ended July 31, 2018, the Museum wrote off unrestricted fixed assets with a net value of $1,189,861 consisting of office space which was gutted and replaced as part of the HVAC project. This loss is reflected in the Statements of Activities and Changes in Net Assets as a loss on disposal of non-operating assets.

Included in the cost basis of the property and equipment at July 31, 2018 and 2017 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.

4. PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense for unrestricted fixed assets consisted of the following for the years ended July 31, 2018 and 2017:

	2018	2017
Depreciation of operating assets	$ 128,113	$ 124,172
Depreciation of non-operating assets	1,019,008	1,019,008
TOTAL DEPRECIATION AND AMORTIZATION	**$ 1,147,121**	**$ 1,143,180**

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.

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, 2018 and 2017.

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 February 28, 2020. The line bears an interest rate of LIBOR plus 1.5%. The interest rate at July 31, 2018 and 2017 was 3.592% and 2.7%, respectively.

Outstanding balances under the line of credit agreement for the years ended July 31, 2018 and 2017 were $140,000 and $265,000, respectively.

Interest expense on the line of credit of $25,012 and $2,129 is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets during the years ended July 31, 2018 and 2017, 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, 2018 and 2017.

	2018	2017
Cost	$ 141,199	$ 121,922
Less: Accumulated depreciation	-	(67,069)
	$ 141,199	**$ 54,853**

7. CAPITAL LEASE OBLIGATION (Continued)

Future minimum lease payments under capital lease obligations at July 31, 2018 are as follows:

Year Ending July 31,	
2019	$ 30,000
2020	30,000
2021	30,000
2022	30,000
2023	25,000
	145,000
Less: Interest	(8,552)
CAPITAL LEASE OBLIGATION	**$ 136,448**

Interest expense for the years ended July 31, 2018 and 2017 was $1,151 and $1,057, respectively, and is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets during the years ended July 31, 2018 and 2017, respectively.

8. LONG-TERM FINANCING

Bonds Payable:

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. 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%. In April 2018, in response to the changes in corporate Federal income tax rates, the bondholder invoked an option in the contract that permitted the interest rate to be increased to 3.52%. 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.

Additionally, the agreements for the bond and note payable contain various covenants, which among other things, require the collection to maintain certain financial ratios and submit various financial reports throughout their fiscal year.

8. LONG-TERM FINANCING (Continued)

Note Payable:

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, 2018 and 2017 was 4.10% and 3.227%, respectively.

HVAC Loan Payable:

In March 2017, the Collection entered into a term loan agreement with a bank for $4,000,000 in financing to assist with modernization of the HVAC system in the original house. The loan matures in 2022 and bears a fixed interest rate of 4.5%. Until April 2019, the Collection is obligated for interest payments only. At maturity, any remaining debt obligation may by subject to refinancing. The full $4,000,000 was drawn in March 2017 under the terms of the loan agreement.

At July 31, 2018, the Collection's future maturities on the refinancing are as follows:

Year Ending July 31,	Bonds Payable	Note Payable	HVAC Loan Payable	Total
2019	$ 653,933	$ 139,900	$ 62,800	$ 856,633
2020	673,151	139,900	194,000	1,007,051
2021	692,934	139,900	202,900	1,035,734
2022	713,299	139,900	212,300	1,065,499
2023	6,363,451	46,634	3,328,000	9,738,085
Total future maturities	9,096,768	606,234	4,000,000	13,703,002
Less: Bond issuance costs	(143,838)	-	-	(143,838)
TOTAL	**$ 8,952,930**	**$ 606,234**	**$ 4,000,000**	**$ 13,559,164**

Long-term financing interest and fees for the years ending July 31, 2018 and 2017 are as follows:

	2018	2017
Long-Term Financing Expenses:		
Non-operating, "Long-term financing expenses"		
Bondholder interest and amortization	$ 299,721	$ 298,935
Term loan interest	24,245	22,719
Other fees	750	750
	324,716	322,404
Operating, "Other facility costs"		
HVAC loan interest	182,500	69,000
TOTAL LONG-TERM FINANCING EXPENSES	**$ 507,216**	**$ 391,404**

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at July 31, 2018 and 2017:

	2018	2017
Program Services	$ 22,916,002	$ 21,871,037
Time Restricted	1,575,000	2,454,905
Restricted for HVAC capital project	-	1,451,865
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 24,491,002**	**$ 25,777,807**

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:

	2018	2017
Program Services	$ 2,262,037	$ 1,881,201
Passage of Time	854,905	645,000
TOTAL OPERATING NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 3,116,942**	**$ 2,526,201**
TOTAL NON-OPERATING NET ASSETS (PROGRAM SERVICES) RELEASED FROM RESTRICTION	**$ 4,759,849**	**$ 1,321,228**

10. CONTRIBUTED SERVICES AND MATERIALS

During the years ended July 31, 2018 and 2017, the Collection was the beneficiary of donated services and materials consisting primarily of legal and program administration services for membership, communications, visitor services and education. The fair value of these services and materials was estimated to be $358,931 and $501,799 for the years ended July 31, 2018 and 2017, respectively.

11. LEASE COMMITMENTS

The Collection is committed under a noncancelable operating lease for storage space. The lease was initiated September 30, 2016 for five years.

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

Year Ending July 31,	
2019	$ 26,203
2020	26,824
2021	27,459
2022	2,293
	$ 82,779

Rent expense for the years ended July 31, 2018 and 2017 was $28,870 and $34,538, respectively.

11. LEASE COMMITMENTS (Continued)

On January 29, 2016, the Collection entered into a sublease agreement with Building Bridges Across the River to become a resident at THEARC (Town Hall Education Arts Recreation Campus), an Anacostia-based social service conglomerate serving that community. The Collection will provide programs for both K-12 and senior populations. The sublease became effective upon the completion of a third building within THEARC complex which occurred November 10, 2017 and will expire November 2027. Rental expenses consist of the Collection's share of monthly operating costs and amortization of the initial payment of $247,728 for the space construction over the lease period. Rental expenses of $34,795 and $0 are included with Other facility costs in the Statements of Activities and Changes in Net Assets for the years ended July 31, 2018 and 2017, respectively. The remaining initial payment of $226,010 is included in Prepaid expenses in the accompanying Statements of Financial Position for the year ended July 31, 2018.

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 8.4% of participant annual compensation. The Collection's contributions under the Plan amounted to $300,596 and $294,353 for the years ended July 31, 2018 and 2017, respectively.

During the year ended July 31, 2017, the Board of Trustees established a 457(b) deferred compensation plan for key personnel. The annual contribution is fixed at $18,000. The FY17 contribution was accrued on July 31, 2017 and funded September 1, 2017. The FY18 contribution was accrued and held in cash and cash equivalents at July 31, 2018 and funded August 3, 2018.

13. COMMITMENTS

The Collection 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 ended June 30, 2018.

In October 2015, the Collection entered into a six-year partnership agreement with the University of Maryland (UMD), to expand the arts curriculum at the University, provide additional faculty research opportunities, enhance the post-doctoral fellowship program at the Collection, enable the digitization of the museum’s library and archives, and invigorate arts-related programming at both the Collection and UMD.

As part of the partnership, UMD will make contributions totaling $3 million to the Collection to support these enhanced activities. The agreement contemplates UMD’s construction of a shared contemporary arts center in Prince George’s County, Maryland, which will be used by the Collection for gallery and storage space as well as educational programs and outreach intended to increase public viewing of the Collection.

14. SPLIT-INTEREST AGREEMENTS

The Collection has been named as a beneficiary in two charitable remainder trusts contributed in prior years. Each trust pays its donor an annual amount up 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.

14. SPLIT-INTEREST AGREEMENTS (Continued)

The assets of these trusts are held by an outside trustee and consist of a mixture of fixed income securities, equity securities, and alternatives. The Collection records its interest in these charitable remainder trusts as a contribution receivable, equal to the estimated future cash receipts, discounted at 6% and 2.2% over the expected life of each donor.

At July 31, 2018 and 2017, the present value of the Collection's interest in these trusts was $5,270,972 and $4,956,599, respectively, and is recorded in receivables. The change in value of the split interest agreements for the years ended July 31, 2018 and 2017 was $314,373 and $660,065, respectively.

This change in value 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.

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. During the year ended July 31, 2018, there were no new annuity contributions. 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, 2018 and 2017, was $95,373 and $100,431, respectively, using discount rates ranging from 1.8% to 6.0% 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.

15. FAIR VALUE MEASUREMENT (Continued)

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, 2018 and 2017.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Collection are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Collection are deemed to be actively traded.
- *Private equity funds and other alternative funds* - These instruments do not have a readily determinable fair value and are measured using the NAV per share (or its equivalent) as a practical expedient. 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. In accordance with Subtopic 820-10, these instruments have not been categorized in the fair value hierarchy; however, the fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The table below summarizes, by level within the fair value hierarchy and those invested and measured at NAV for practical expedient as of July 31, 2018:

	Level 1	Level 2	Level 3	Investments Measured in NAV	Total July 31, 2018
Financial Assets:					
Money market funds	$ 1,447,372	$ -	$ -	$ -	$ 1,447,372
Fixed income and blended mutual funds	5,894,745	-	-	-	5,894,745
Domestic equity mutual funds	15,721,493	-	-	-	15,721,493
International equity mutual funds	6,796,665	-	-	-	6,796,665
Global equity mutual funds	2,291,803	-	-	-	2,291,803
Alternative funds measure at net asset value	-	-	-	35,654,424	35,654,424
TOTAL	**$ 32,152,078**	**$ -**	**$ -**	**$ 35,654,424**	**$ 67,806,502**

The table below summarizes, by level within the fair value hierarchy and those invested and measured at NAV for practical expedient as of July 31, 2017:

	Level 1	Level 2	Level 3	Investments Measured in NAV	Total July 31, 2017
Financial Assets:					
Money market funds	$ 1,687,510	$ -	$ -	$ -	$ 1,687,510
Fixed income and blended mutual funds	5,456,362	-	-	-	5,456,362
Domestic equity mutual funds	12,713,028	-	-	-	12,713,028
International equity mutual funds	6,871,583	-	-	-	6,871,583
Global equity mutual funds	1,471,265	-	-	-	1,471,265
Alternative funds measured at net asset value	-	-	-	33,389,082	33,389,082
TOTAL	**$ 28,199,748**	**$ -**	**$ -**	**$ 33,389,082**	**$ 61,588,830**

15. FAIR VALUE MEASUREMENT (Continued)

Transfers between levels are recorded at the end of the reporting period, if applicable. During the year ended July 31, 2017, and applied retroactively for July 31, 2016, level 3 securities were transferred for the adoption of ASU 2015-07, Fair Value Measurement, which removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient.

16. ENDOWMENT

The Collection's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Collection to appropriate for expenditures or accumulate so much of an endowment fund as the Collection determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. As a result of this interpretation, the Collection has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers 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.

Change in endowment net assets by type of fund for the year ended July 31, 2018 as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 1,680,060	$ 52,396,434	$ 54,076,494
Net investment earnings	-	5,510,933	-	5,510,933
Contributions at present value	-	-	1,830,264	1,830,264
Appropriations of endowment assets for expenditures	-	(3,675,862)	-	(3,675,862)
Art acquisitions	-	-	(9,591)	(9,591)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 3,515,131**	**$ 54,217,107**	**$ 57,732,238**

16. ENDOWMENT (Continued)

Change in endowment net assets by type of fund for the year ended July 31, 2017 as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,463,088)	$ 41,800	$ 49,619,663	$ 47,198,375
Net investment earnings	-	6,755,526	-	6,755,526
Net investment losses resulting in deficiency	2,467,575	(2,467,575)	-	-
Contributions at present value	-	-	2,817,060	2,817,060
Appropriation of endowment assets for expenditure	-	(2,649,441)	-	(2,649,441)
Art acquisitions	-	-	(40,289)	(40,289)
Other	(4,487)	(250)	-	(4,737)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 1,680,060**	**$ 52,396,434**	**$ 54,076,494**

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.

As of July 31, 2018 and 2017, there were no deficiencies of this nature that are reported in unrestricted net assets.

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.

16. ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives (continued) -

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's annual endowment draw for operations is currently calculated as 5% of the average market value of the prior 11 quarters of the invested assets. Beginning in FY17, the Board of Trustees voted to reduce this draw percentage from 5% to 4.5% over three years in anticipation of more modest investment returns going forward.

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. The Board may also authorize other exceptions from time to time.

17. SUBSEQUENT EVENTS

In preparing these financial statements, the Collection has evaluated events and transactions for potential recognition or disclosure through November 14, 2018, the date the financial statements were issued.