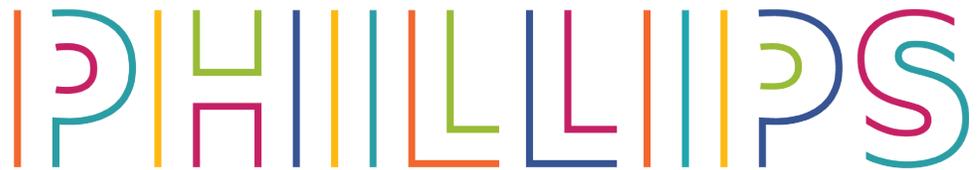


**FINANCIAL STATEMENTS**



**THE PHILLIPS COLLECTION**

**FOR THE YEARS ENDED  
JULY 31, 2023 AND 2022**

# THE PHILLIPS COLLECTION

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## CPAs & ADVISORS

### INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the accompanying financial statements of The Phillips Collection (the Collection), which comprise the statements of financial position as of July 31, 2023 and 2022, 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.

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, 2023 and 2022, 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.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Collection and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Collection's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Collection's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Collection's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

November 14, 2023

**THE PHILLIPS COLLECTION**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JULY 31, 2023 AND 2022**

**ASSETS**

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 536,247	\$ 1,283,575
Receivables:		
Accounts receivable, net	6,928	155,182
ERC receivable	1,777,108	-
Gifts and grants	1,867,745	1,428,747
Pledges - Endowment, net	<u>263,640</u>	<u>722,732</u>
Total receivables	<u>3,915,421</u>	<u>2,306,661</u>
<b>COLLECTIONS (Note 5)</b>		
Merchandise inventory	407,949	379,472
Prepaid expenses	324,412	228,081
Property and equipment, net of accumulated depreciation and amortization of \$22,747,602 and \$21,310,024 in 2023 and 2022, respectively	28,410,195	29,701,029
Beneficial interest in charitable remainder trust	4,858,860	4,624,342
Investments	<u>89,313,114</u>	<u>87,429,565</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>127,766,198</u></b>	<b>\$ <u>125,952,725</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Line of credit	\$ 250,000	\$ 620,000
Accounts payable and accrued expenses	490,324	1,662,209
Accrued compensation	507,998	459,917
Deferred revenue	81,681	59,931
Finance lease obligation	107,465	133,610
Gift annuity debt	61,102	48,371
Note payable	-	46,634
HVAC loan payable	-	3,328,500
Bonds payable, net	<u>5,773,617</u>	<u>6,253,457</u>
Total liabilities	<u>7,272,187</u>	<u>12,612,629</u>

**NET ASSETS**

Without donor restrictions:		
Undesignated	25,005,234	22,081,289
Board designated	<u>9,798,928</u>	<u>8,274,184</u>
Total net assets without donor restrictions	34,804,162	30,355,473
With donor restrictions	<u>85,689,849</u>	<u>82,984,623</u>
Total net assets	<u>120,494,011</u>	<u>113,340,096</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>127,766,198</u></b>	<b>\$ <u>125,952,725</u></b>

See accompanying notes to financial statements.

## THE PHILLIPS COLLECTION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JULY 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Gifts, grants and corporate support	\$ 10,452,733	\$ 3,551,245	\$ 14,003,978
Fees from exhibitions and loaned art	368,336	-	368,336
Admissions	671,118	-	671,118
Shop revenue	773,848	-	773,848
Other revenue	179,107	-	179,107
Contributed services and materials	318,437	-	318,437
Endowment earnings transfer, net	3,492,443	-	3,492,443
Net assets released from donor restrictions	<u>1,655,802</u>	<u>(1,655,802)</u>	<u>-</u>
Total support and revenue	<u>17,911,824</u>	<u>1,895,443</u>	<u>19,807,267</u>
<b>EXPENSES</b>			
Personnel	9,073,398	-	9,073,398
Contractual services	1,054,454	-	1,054,454
Insurance	304,785	-	304,785
Utilities	711,755	-	711,755
Other facility costs	925,502	-	925,502
Administrative expenses	1,099,657	-	1,099,657
Printing and publications	264,846	-	264,846
Information and technology expenses	287,847	-	287,847
Fundraising activities and events	703,337	-	703,337
Cost of goods sold	404,208	-	404,208
Marketing and advertising	216,906	-	216,906
Contributed services and materials	318,437	-	318,437
Traveling exhibitions	<u>57,430</u>	<u>-</u>	<u>57,430</u>
Total expenses	<u>15,422,562</u>	<u>-</u>	<u>15,422,562</u>
Changes in net assets from operations before employee retention credit and other items	2,489,262	1,895,443	4,384,705
Employee retention credit	<u>1,777,108</u>	<u>-</u>	<u>1,777,108</u>
Changes in net assets from operations before other items	4,266,370	1,895,443	6,161,813
<b>OTHER ITEMS</b>			
Non-operating investment earnings, net	349,457	2,468,245	2,817,702
Non-operating net assets released from restriction	1,414,811	(1,414,811)	-
Long-term financing expenses	(395,978)	-	(395,978)
Depreciation of non-operating assets	(1,148,459)	-	(1,148,459)
Art collection acquisitions	(18,200)	(243,651)	(261,851)
Campaign expenses	<u>(19,312)</u>	<u>-</u>	<u>(19,312)</u>
Changes in net assets	4,448,689	2,705,226	7,153,915
Net assets at beginning of year	<u>30,355,473</u>	<u>82,984,623</u>	<u>113,340,096</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 34,804,162</u></b>	<b><u>\$ 85,689,849</u></b>	<b><u>\$ 120,494,011</u></b>

See accompanying notes to financial statements.

## THE PHILLIPS COLLECTION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JULY 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Gifts, grants and corporate support	\$ 5,907,357	\$ 1,979,875	\$ 7,887,232
Fees from exhibitions and loaned art	322,807	-	322,807
Admissions	753,793	-	753,793
Shop revenue	806,650	-	806,650
Other revenue	64,823	-	64,823
Contributed services and materials	255,053	-	255,053
Endowment earnings transfer, net	2,945,000	-	2,945,000
Net assets released from donor restrictions	<u>2,960,852</u>	<u>(2,960,852)</u>	<u>-</u>
Total support and revenue	<u>14,016,335</u>	<u>(980,977)</u>	<u>13,035,358</u>
<b>EXPENSES</b>			
Personnel	7,655,324	-	7,655,324
Contractual services	1,321,753	-	1,321,753
Insurance	445,256	-	445,256
Utilities	635,106	-	635,106
Other facility costs	954,367	-	954,367
Administrative expenses	1,214,868	-	1,214,868
Printing and publications	180,792	-	180,792
Information and technology expenses	364,839	-	364,839
Fundraising activities and events	439,307	-	439,307
Cost of goods sold	419,248	-	419,248
Marketing and advertising	229,785	-	229,785
Contributed services and materials	<u>255,053</u>	<u>-</u>	<u>255,053</u>
Total expenses	<u>14,115,698</u>	<u>-</u>	<u>14,115,698</u>
Changes in net assets from operations before extinguishment of debt and other items	(99,363)	(980,977)	(1,080,340)
Extinguishment of debt	<u>1,399,609</u>	<u>-</u>	<u>1,399,609</u>
Changes in net assets from operations before other items	1,300,246	(980,977)	319,269
<b>OTHER ITEMS</b>			
Non-operating investment earnings	(410,456)	(4,380,461)	(4,790,917)
Non-operating net assets released from restriction	2,440,720	(2,440,720)	-
Long-term financing expenses	(423,788)	-	(423,788)
Depreciation of non-operating assets	(1,171,538)	-	(1,171,538)
Art collection acquisitions	(48,000)	(99,604)	(147,604)
Campaign expenses	<u>(753,851)</u>	<u>-</u>	<u>(753,851)</u>
Changes in net assets	933,333	(7,901,762)	(6,968,429)
Net assets at beginning of year	<u>29,422,140</u>	<u>90,886,385</u>	<u>120,308,525</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 30,355,473</u></b>	<b><u>\$ 82,984,623</u></b>	<b><u>\$ 113,340,096</u></b>

See accompanying notes to financial statements.

**THE PHILLIPS COLLECTION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JULY 31, 2023**

	Operational Expenses				Non-Operational Expenses			
	Program Services	Management and General	Fundraising	Total Operational Expenses	Campaign Fundraising	Other	Total Non-Operational Expenses	Total Expenses
Personnel	\$ 7,449,056	\$ 398,916	\$ 1,225,426	\$ 9,073,398	\$ -	\$ -	\$ -	\$ 9,073,398
Contractual services	916,915	63,119	74,420	1,054,454	6,388	-	6,388	1,060,842
Insurance	280,702	19,705	4,378	304,785	-	-	-	304,785
Utilities	553,933	133,092	24,730	711,755	-	-	-	711,755
Other facility costs*	469,825	445,061	10,616	925,502	-	1,544,437	1,544,437	2,469,939
Administrative expenses	870,609	130,545	98,503	1,099,657	26	-	26	1,099,683
Printing and publications	234,587	17,466	12,793	264,846	-	-	-	264,846
Information technology expenses	196,607	58,518	32,722	287,847	-	-	-	287,847
Fundraising activities and events	235,022	35,027	433,288	703,337	12,898	-	12,898	716,235
Art collection acquisitions	-	-	-	-	-	261,851	261,851	261,851
Cost of goods sold	404,208	-	-	404,208	-	-	-	404,208
Marketing and advertising	205,895	11,011	-	216,906	-	-	-	216,906
Contributed services and materials	137,001	151,387	30,049	318,437	-	-	-	318,437
Traveling exhibitions	57,430	-	-	57,430	-	-	-	57,430
<b>TOTAL</b>	<b>\$ 12,011,790</b>	<b>\$ 1,463,847</b>	<b>\$ 1,946,925</b>	<b>\$ 15,422,562</b>	<b>\$ 19,312</b>	<b>\$ 1,806,288</b>	<b>\$ 1,825,600</b>	<b>\$ 17,248,162</b>

\* Included in other facility expenses are long-term financing expenses and depreciation of non-operating assets. The non-operational expenses are considered to be supporting services with the exception of Art collection acquisitions, which is considered a program service.

**THE PHILLIPS COLLECTION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JULY 31, 2022**

	Operational Expenses			Non-Operational Expenses				Total Expenses
	Program Services	Management and General	Fundraising	Total Operational Expenses	Campaign Fundraising	Other	Total Non-Operational Expenses	
Personnel	\$ 6,403,305	\$ 354,625	\$ 897,394	\$ 7,655,324	\$ 321,090	\$ -	\$ 321,090	\$ 7,976,414
Contractual services	1,160,166	104,214	57,373	1,321,753	195,764	-	195,764	1,517,517
Insurance	423,804	17,877	3,575	445,256	-	-	-	445,256
Utilities	494,632	118,732	21,742	635,106	-	-	-	635,106
Other facility costs*	569,369	374,585	10,413	954,367	26,500	1,595,326	1,621,826	2,576,193
Administrative expenses	957,540	167,799	89,529	1,214,868	12,143	-	12,143	1,227,011
Printing and publications	144,084	13,291	23,417	180,792	212	-	212	181,004
Information technology expenses	262,114	69,684	33,041	364,839	3,609	-	3,609	368,448
Fundraising activities and events	123,792	5,085	310,430	439,307	194,533	-	194,533	633,840
Art collection acquisitions	-	-	-	-	-	147,604	147,604	147,604
Cost of goods sold	419,248	-	-	419,248	-	-	-	419,248
Marketing and advertising	210,493	19,292	-	229,785	-	-	-	229,785
Contributed services and materials	93,006	132,364	29,683	255,053	-	-	-	255,053
<b>TOTAL</b>	<b>\$ 11,261,553</b>	<b>\$ 1,377,548</b>	<b>\$ 1,476,597</b>	<b>\$ 14,115,698</b>	<b>\$ 753,851</b>	<b>\$ 1,742,930</b>	<b>\$ 2,496,781</b>	<b>\$ 16,612,479</b>

\* Included in other facility expenses are long-term financing expenses and depreciation of non-operating assets. The non-operational expenses are considered to be supporting services with the exception of Art collection acquisitions, which is considered a program service.

**THE PHILLIPS COLLECTION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JULY 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 7,153,915	\$ (6,968,429)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,437,578	1,448,075
Amortization of bond issuance costs	8,461	8,461
Unrealized (gain) loss on investments	(2,500,912)	6,494,216
Realized gain on investments	(2,529,337)	(3,029,185)
Contributions to be invested in perpetuity	(337,519)	(1,597,000)
Forgiveness of Federal loan payable	-	(1,399,609)
Art acquisitions	261,851	147,604
Change in allowance for doubtful accounts	(20,903)	(11,000)
(Increase) decrease in:		
Accounts, gifts and grants receivables	(269,841)	498,849
ERC receivable	(1,777,108)	-
Endowment pledges receivable	459,092	599,804
Merchandise inventory	(28,477)	3,466
Prepaid expenses	(96,331)	87,510
Beneficial interest in charitable remainder trust	(234,518)	1,282,157
(Decrease) increase in:		
Accounts payable and accrued expenses	(1,171,885)	978,796
Accrued compensation	48,081	(32,231)
Deferred revenue	21,750	(28,950)
Net cash provided (used) by operating activities	<u>423,897</u>	<u>(1,517,466)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	3,146,700	1,707,380
Purchases of property and equipment	(146,744)	(382,709)
Art acquisitions	(261,851)	(147,604)
Net cash provided by investing activities	<u>2,738,105</u>	<u>1,177,067</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on line of credit	550,000	1,320,000
Payoff of Federal loan payable (unforgiven portion)	-	(70,917)
Payments on line of credit	(920,000)	(700,000)
Payments on HVAC loan	(3,328,500)	(212,300)
Payments on capital lease obligations	(26,145)	(16,560)
Payments under gift annuity agreements	12,731	(12,242)
Payments on long-term financing	(534,935)	(853,190)
Contributions to be invested in perpetuity	337,519	1,597,000
Net cash (used) provided by financing activities	<u>(3,909,330)</u>	<u>1,051,791</u>
Net (decrease) increase in cash and cash equivalents	(747,328)	711,392
Cash and cash equivalents at beginning of year	<u>1,283,575</u>	<u>572,183</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 536,247</u></u>	<u><u>\$ 1,283,575</u></u>

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JULY 31, 2023 AND 2022

SUPPLEMENTAL INFORMATION	<u>2023</u>	<u>2022</u>
Interest Paid	\$ <u>352,741</u>	\$ <u>408,350</u>
Equipment Acquired Under Capital Lease	\$ <u>-</u>	\$ <u>135,766</u>

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2023 AND 2022**

**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) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions.

Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations. Contributions restricted by donors as to time and/or purpose, and temporary in nature, are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Other donor imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets, other than works of art, and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

New accounting pronouncement adopted -

During 2023, the Collection adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosure of key information about leasing arrangements. The Collection applied the new standard using the modified retrospective approach. There was no impact of the adoption of the new standard on the Collection's financial statements due to overall immateriality.

Cash and cash equivalents -

The Collection considers demand accounts held with financial institutions to be cash equivalents. Amounts held in investment portfolios, in the amounts of \$6,285,724 and \$2,603,055 for the years ended July 31, 2023 and 2022, respectively, regardless of their maturities, are not considered cash equivalents.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2023 AND 2022

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

##### Cash and cash equivalents (continued) -

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 donor or 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 uncollectable, 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 and is stated at the lower of cost or net realizable value using the average cost method under the accounting guidance ASU 2015-11, *Simplifying the Measurement of Inventory*.

##### 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.

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, ten, or fifteen years. The cost of maintenance and repairs is recorded as expenses are incurred.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022

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

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, certain revenue derived from its flexible capital and private funds is considered unrelated business income and subject to taxation by the Internal Revenue Service and the District of Columbia.

For the years ended July 31, 2023 and 2022, management does not anticipate any material unrelated business income subject to tax.

Uncertain tax positions -

For the years ended July 31, 2023 and 2022, 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.

Debt issuance costs -

In accordance with the FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, the Collection presents debt issuance costs in the financial statement as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense.

Deferred revenue -

Deferred revenue consists of facilities rental fees, exhibition fees, and member trip fees for upcoming events. Deferred revenue consisted of the following as of July 31:

	<u>2023</u>	<u>2022</u>
Grants	\$ 45,939	\$ 45,939
Facilities rental fees	31,744	9,994
Other	<u>3,998</u>	<u>3,998</u>
<b>TOTAL DEFERRED REVENUE</b>	<b><u>\$ 81,681</u></b>	<b><u>\$ 59,931</u></b>

Program services -

The Collection's programmatic activities include those associated with the preservation and exhibition of the collection, such as curatorial, conservation, registrar, and library functions; and those activities designed to inform the public about the collection and its history, such as education, communications, publications, and the music program.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2023 AND 2022

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

##### Program services (continued) -

The University of Maryland Center for Art and Knowledge at The Phillips Collection (a research and academic arm of the Collection) and THEARC (a shared facility in Southeast Washington, D.C.), are integral to the Collection's programmatic activities. In addition, the Collection includes visitor amenities and services associated with its public outreach under the programmatic heading.

##### Operations -

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.

##### Support and revenue recognition -

The Collection receives revenue through gifts, grants and support from individuals, corporations, foundations and other entities. Gifts, grants and corporate support are recognized in the appropriate category of net assets in the period received. The Collection performs an analysis of each individual gift, grant or corporate support transaction to determine if the revenue streams follow the contribution rules and is nonreciprocal, or if it should be deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For gifts, grants and corporate support qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gifts, grants and corporate support qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Gifts, grants and corporate support qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Collection recognizes revenue for these conditional contributions when the related barrier has been overcome. Funds received in advance of the conditions being satisfied are recorded as refundable advances. For contributions and grants and contracts treated as conditional contributions, the Collection had approximately \$276,000 and \$32,000 in unrecognized conditional awards as of July 31, 2023 and 2022, respectively.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2023 AND 2022

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

##### Support and revenue recognition (continued) -

In accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts With Customers* ("ASC 606"), the Collection recognizes revenue when control of the promised goods or services is transferred to the Collection's outside parties in an amount that reflects the consideration the Collection expects to be entitled to in exchange for those goods or services.

The Collection has elected to opt out of all (or certain) disclosures not required for nonpublic entities and has identified fees from exhibitions and loaned art, admissions, and shop revenue as categories subject to the adoption of ASC 606. The Collection recognizes contracts with customers, as goods or services are transferred or provided in accordance with ASC 606.

Fees from exhibitions and loaned art are recognized as revenue as performance obligations are satisfied. The Collection recognizes revenue from admissions upon sale or date of services, as applicable. Shop revenue includes retail sales and is recognized upon sale.

##### Contributed services and materials -

Contributed services and materials primarily consist of legal and program administration services. Contributed services and materials are recorded at their fair value as of the date of the gift. Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Collection.

##### 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 Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Collection are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of time and effort.

##### Investment 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.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

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

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.

The Collection also follows the provision ASU 2015-07, *Fair Value Measurement*, which was adopted during the year ended July 31, 2018. 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.

New accounting pronouncement (not yet adopted) -

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Collection for the year ending July 31, 2024. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Collection plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

**2. INVESTMENTS**

Investments consisted of the following at July 31, 2023 and 2022:

	<b>Fair Value</b>	
	<b>2023</b>	<b>2022</b>
Money market funds	\$ 6,285,724	\$ 2,603,055
Fixed income and blended mutual funds	13,001,822	16,707,098
Domestic equity mutual funds	12,149,721	8,571,377
International equity mutual funds	11,432,593	10,359,974
Global equity mutual funds	135,894	155,558
Alternative investments	<u>46,307,360</u>	<u>49,032,503</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 89,313,114</u></b>	<b><u>\$ 87,429,565</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**2. INVESTMENTS (Continued)**

As of July 31, 2023 and 2022, investments held by the Collection for the purposes of the gift annuity agreements (see Note 15) totaled \$289,542 and \$292,838, respectively. The Collection received proceeds of \$14,597,483 and \$14,770,851 on the sale of long-term investments during the years ended July 31, 2023 and 2022, 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 earnings and shows how they are presented in the Statement of Activities and Changes in Net Assets for the year ended July 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment Investment:</b>			
Interest and dividends	\$ 186,730	\$ 1,275,486	\$ 1,462,216
Net realized and unrealized gain	674,886	4,295,830	4,970,716
Less: Investment expenses	<u>(36,772)</u>	<u>(272,974)</u>	<u>(309,746)</u>
	<u>824,844</u>	<u>5,298,342</u>	<u>6,123,186</u>
<b>Other Investments:</b>			
Interest and dividends	17,619	111,667	129,286
Net realized and unrealized gain	(16,792)	76,325	59,533
Less: Investment expenses	<u>-</u>	<u>(1,033)</u>	<u>(1,033)</u>
	<u>827</u>	<u>186,959</u>	<u>187,786</u>
<b>TOTAL INVESTMENT EARNINGS, NET</b>	<b><u>\$ 825,671</u></b>	<b><u>\$ 5,485,301</u></b>	<b><u>\$ 6,310,972</u></b>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>As Reported in the Statement of Activities and Changes in Net Assets:</b>			
Non-operating investment earnings:			
Endowment earnings, net of transfer for operations	\$ 349,457	\$ 2,281,286	\$ 2,630,743
Non-endowment gain	<u>-</u>	<u>186,959</u>	<u>186,959</u>
	<u>349,457</u>	<u>2,468,245</u>	<u>2,817,702</u>
Earnings included in other revenue	827	-	827
Endowment earnings transfer for operations	<u>3,492,443</u>	<u>-</u>	<u>3,492,443</u>
<b>TOTAL NON-OPERATING INVESTMENT EARNINGS, NET</b>	<b><u>\$ 3,842,727</u></b>	<b><u>\$ 2,468,245</u></b>	<b><u>\$ 6,310,972</u></b>
<b>UNREALIZED GAIN ONLY</b>	<b><u>\$ 316,714</u></b>	<b><u>\$ 2,184,198</u></b>	<b><u>\$ 2,500,912</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**2. INVESTMENTS (Continued)**

The following summarizes the components of investment earnings (losses) and shows how they are presented in the Statement of Activities and Changes in Net Assets for the year ended July 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment Investment:</b>			
Interest and dividends	\$ 171,591	\$ 1,663,074	\$ 1,834,665
Net realized and unrealized loss	(268,326)	(2,631,964)	(2,900,290)
Less: Investment expenses	<u>(29,606)</u>	<u>(294,560)</u>	<u>(324,166)</u>
	<u>(126,341)</u>	<u>(1,263,450)</u>	<u>(1,389,791)</u>
<b>Other Investments:</b>			
Interest and dividends	5,281	82,024	87,305
Net realized and unrealized loss	(28,614)	(536,127)	(564,741)
Less: Investment expenses	<u>-</u>	<u>(2,023)</u>	<u>(2,023)</u>
	<u>(23,333)</u>	<u>(456,126)</u>	<u>(479,459)</u>
<b>TOTAL INVESTMENT EARNINGS (LOSSES), NET</b>	<b><u>\$ (149,674)</u></b>	<b><u>\$ (1,719,576)</u></b>	<b><u>\$ (1,869,250)</u></b>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>As Reported in the Statements of Activities and Changes in Net Assets:</b>			
Non-operating investment earnings (losses):			
Endowment earnings (losses), net of transfer for operations	\$ (410,456)	\$ (3,924,335)	\$ (4,334,791)
Non-endowment loss	<u>-</u>	<u>(456,126)</u>	<u>(456,126)</u>
	<u>(410,456)</u>	<u>(4,380,461)</u>	<u>(4,790,917)</u>
Earnings (losses) included in other revenue	(23,333)	-	(23,333)
Endowment earnings transfer for operations	<u>2,945,000</u>	<u>-</u>	<u>2,945,000</u>
<b>TOTAL NON-OPERATING INVESTMENT EARNINGS (LOSSES), NET</b>	<b><u>\$ 2,511,211</u></b>	<b><u>\$ (4,380,461)</u></b>	<b><u>\$ (1,869,250)</u></b>
<b>UNREALIZED LOSS ONLY</b>	<b><u>\$ (579,482)</u></b>	<b><u>\$ (5,914,734)</u></b>	<b><u>\$ (6,494,216)</u></b>

**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 Collection's endowment campaign are recorded as revenue with donor restrictions to be invested in perpetuity. 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 PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**3. ACCOUNTS, GIFTS, GRANTS AND PLEDGES RECEIVABLE (Continued)**

The loss on uncollectable pledges recorded in gifts, grants and corporate support in the Statements of Activities and Changes in Net Assets totaled \$0 and \$1,155 for the years ended July 31, 2023 and 2022, respectively. All pledges receivable due in more than one year have been discounted to their net present value at July 31, 2023 and 2022. The discount rate is 1.84% and was determined using the U.S. Treasury Daily Treasury Yield Curve Rate for the term closest to the time period of expected receipt on the day the Collection was notified of the pledge.

Accounts, gifts, grants, and pledges receivables are due as follows at July 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Less than one year	\$ 1,924,752	\$ 1,839,670
One to five years	264,336	599,523
Beyond five years	60,000	-
Total trade, gifts, grants and pledges receivables	2,249,088	2,439,193
Less: Present value discount	-	(904)
Less: Allowance for doubtful pledges	(110,725)	(131,628)
<b>TOTAL RECEIVABLES</b>	<b>\$ 2,138,363</b>	<b>\$ 2,306,661</b>

**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at July 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Land	\$ 833,240	\$ 833,240
Buildings	46,963,779	46,653,732
Equipment	2,892,918	2,843,685
Construction in process	-	212,536
Software and website	467,860	467,860
Total property and equipment	51,157,797	51,011,053
Less: Accumulated depreciation and amortization	(22,747,602)	(21,310,024)
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>\$ 28,410,195</b>	<b>\$ 29,701,029</b>

Included in the cost basis of the property and equipment at July 31, 2023 and 2022 is \$1,463,005 of restricted property in perpetuity. The property may not be sold or disposed of by the Collection and are considered to be a 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 property and equipment without donor restrictions consisted of the following for the years ended July 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Depreciation of operating assets	\$ 289,119	\$ 276,537
Depreciation of non-operating assets	1,148,459	1,171,538
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<b>\$ 1,437,578</b>	<b>\$ 1,448,075</b>

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2023 AND 2022

#### 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 net assets without donor restrictions if purchased with assets without donor restrictions and are recorded as decreases in net assets with donor restrictions 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 net assets with donor restrictions 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 or sales of artwork during each of the years ended July 31, 2023 and 2022.

#### 6. LINE OF CREDIT

The Collection has an unsecured line of credit payable to a bank with a \$3,000,000 limit. The line bears an interest rate of SOFR plus 1.5%. The interest rate at July 31, 2023 and 2022 was 6.92% and 3.21%, respectively. There were outstanding balances of \$250,000 and \$620,000 under the line of credit agreement for the years ended July 31, 2023 and 2022, respectively. Subsequent to year-end, the line of credit was renewed with a maturity date of November 2024 and an updated interest rate of SOFR plus 1.6%.

Interest expense on the line of credit for the years ended July 31, 2023 and 2022 was \$43,710 and \$11,624, respectively is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

#### 7. 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 were 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 ten-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%. During the year ended July 31, 2023, the Collection refinanced the bond to amortize the debt over the remaining life, which has a maturity date of August 1, 2033. The Collection locked in a fixed interest rate of 4.26%.

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2023 AND 2022**

**7. LONG-TERM FINANCING (Continued)**

Bonds Payable (continued):

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.

Note Payable:

In 2012, a variable rate term loan was obtained through the same purchaser to finance termination costs of a prior bond due to a restructuring of the debt. This ten-year term loan with an original balance of \$1,399,000 was paid in monthly installments of \$11,658 plus interest at a variable rate of SOFR plus 200 bps. The interest rate at July, 31 2022 was 3.80%. The loan was paid in full in November 2022.

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 bore a fixed interest rate of 4.5% and in March 2019 converted from an interest only to a monthly amortization loan. This loan matured and was paid in full by the Collection in November 2022.

At July 31, 2023, the Collection's future maturities on the long-term financing are as follows:

<u>Year Ending July 31,</u>	<u>Bonds Payable</u>
2024	\$ 476,704
2025	497,413
2026	519,022
2027	541,569
2028	565,096
2029 and Thereafter	<u>3,275,345</u>
Total future maturities	5,875,149
Less: Bond issuance costs	<u>(101,532)</u>
<b>TOTAL, NET</b>	<b><u>\$ 5,773,617</u></b>

Long-term financing interest and fees for the years ending July 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
<b>Long-Term Financing Expenses:</b>		
Non-operating, long-term financing expenses:		
Bondholder interest and amortization	\$ 264,398	\$ 244,023
Term loan interest	330	2,567
Other fees	81,615	750
HVAC loan interest	<u>49,634</u>	<u>155,885</u>
<b>TOTAL LONG-TERM FINANCING EXPENSES</b>	<b><u>\$ 395,977</u></b>	<b><u>\$ 403,225</u></b>

**8. FEDERAL LOAN PAYABLE**

On March 25, 2021, the Collection received loan proceeds in the amount of \$1,399,609 under the Paycheck Protection Program.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**8. FEDERAL LOAN PAYABLE (Continued)**

The promissory note called for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first seventeen months. The Collection received full forgiveness for this loan and recorded revenue from debt extinguishment during the 2022 fiscal year.

**9. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at July 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Subject to expenditure for specified purpose:		
Program Expenses	\$ 10,339,698	\$ 10,107,314
Accumulated investment earnings	<u>15,360,697</u>	<u>13,098,723</u>
	25,700,395	23,206,037
Subject to passage of time	117,000	-
Endowment contributions to be invested in perpetuity	<u>59,872,454</u>	<u>59,778,586</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 85,689,849</u></b>	<b><u>\$ 82,984,623</u></b>

The following 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:

	<b>2023</b>	<b>2022</b>
Program Services	\$ 1,655,802	\$ 2,405,852
Passage of Time	<u>-</u>	<u>555,000</u>
<b>TOTAL OPERATING NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 1,655,802</u></b>	<b><u>\$ 2,960,852</u></b>
<b>TOTAL NON-OPERATING NET ASSETS (PROGRAM SERVICES) RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 1,414,811</u></b>	<b><u>\$ 2,440,720</u></b>

**10. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Statements of Financial Position date comprise the following:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 536,247	\$ 1,283,575
Trade receivables	6,928	155,182
ERC receivable	1,777,108	-
Gifts and grants receivable, current portion	2,094,508	1,188,747
Investments:		
Earnings appropriated by the Board for expenditure from endowments (both donor restricted and quasi)	6,084,632	4,846,645
Unencumbered operating investments	294,026	292,513
Bond payments required and drawn from Vision investments	<u>707,750</u>	<u>816,503</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 11,501,199</u></b>	<b><u>\$ 8,583,165</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**10. LIQUIDITY AND AVAILABILITY (Continued)**

The Collection has a policy to structure its financial assets to be available and liquid as its obligations become due. The Collection has a line of credit agreement (as previously discussed in Note 6) which allows for available borrowings up to \$3,000,000. Board designated funds can also be drawn upon if the Board of Trustees approves such action.

**11. EMPLOYEE RETENTION CREDIT**

The Collection applied for the Employee Retention Credit (ERC) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) modified by the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Relief Act) during the year ended July 31, 2023. During the year ended July 31, 2023, the Collection recorded \$1,777,108 related to the ERC which is presented as a non-operating activity in the Consolidated Statement of Activities and Change in Net Assets for the year ended July 31, 2023. As of July 31, 2023, the total balance remaining to be collected totaled \$1,777,108, which is included in receivables in the accompanying Consolidated Statements of Financial Position.

**12. CONTRIBUTED SERVICES AND MATERIALS**

During the years ended July 31, 2023 and 2022, the Collection was the beneficiary of donated services and materials which allowed the Collection to provide greater resources toward various programs. There were no donor-imposed restrictions associated with the in-kind contributions during the years ended July 31, 2023 and 2022. Contributed services and materials are valued at the estimated fair value based on current rates or costs for similar professional services or materials.

To properly reflect total program expenses, the following donations have been included in revenue and expense for the years ended July 31, 2023 and 2022, respectively:

	<b>2023</b>	<b>2022</b>
Contributed legal services	\$ 150,387	\$ 132,364
Contributed volunteer support	5,332	3,737
Contributed other services	131,369	83,141
Contributed materials for special events	30,049	29,683
Contributed materials for other purposes	1,300	6,128
<b>TOTAL</b>	<b>\$ 318,437</b>	<b>\$ 255,053</b>

The aforementioned expenses have been included in the following functional expense categories (in the accompanying Statements of Functional Expenses):

	<b>2023</b>	<b>2022</b>
Program Services	\$ 137,001	\$ 93,006
Management and General	151,387	132,364
Fundraising	30,049	29,683
<b>TOTAL</b>	<b>\$ 318,437</b>	<b>\$ 255,053</b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**13. LEASE COMMITMENTS**

The Collection is committed under a noncancelable operating lease for storage space. The lease was initiated September 30, 2016 for five years. Subsequent to year-end, this lease was renewed with a new termination date of October 31, 2025.

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosure of key information about leasing arrangements. The Collection elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Collection adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs.

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

**Year Ending July 31,**

2024	\$	31,015
2025		31,829
2026		<u>7,993</u>
	<b>\$</b>	<b><u>70,837</u></b>

Lease expense for the years ended July 31, 2023 and 2022 was \$30,620 and \$29,743, respectively, and is included in Other facility costs in the accompanying financial statements.

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 the public. The sublease became effective upon the completion of a third building within THEARC complex which occurred November 10, 2017 and will expire in November 2027. Lease 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. Lease expenses of \$54,631 and \$51,358 are included with Other facility costs in the accompanying financial statements for the years ended July 31, 2023 and 2022, respectively. The remaining initial payment of \$78,612 and \$108,092 are included in Prepaid expenses in the accompanying Statements of Financial Position for the years ended July 31, 2023 and 2022, respectively.

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 finance leases consisted of the following at July 31, 2023 and 2022:

	<u>2023</u>		<u>2022</u>
Right-of-use assets	\$ 135,766	\$	135,766
Less: Accumulated amortization	<u>(33,941)</u>		<u>(6,788)</u>
<b>TOTAL</b>	<b><u>\$ 101,825</u></b>		<b><u>\$ 128,978</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**13. LEASE COMMITMENTS (Continued)**

Future minimum lease payments under finance lease obligations at July 31, 2023 are as follows:

<u>Year Ending July 31,</u>	
2024	\$ 28,524
2025	28,524
2026	28,524
2027	<u>26,147</u>
	111,719
Less: Interest	<u>(4,254)</u>
<b>FINANCE LEASE OBLIGATION</b>	<b><u>\$ 107,465</u></b>

Interest expense for the years ended July 31, 2023 and 2022 was \$2,379 and \$1,962, respectively, and is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

**14. RETIREMENT PLAN**

The Collection sponsors a defined contribution 403(b) retirement plan (the 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 \$293,004 and \$299,992 for the years ended July 31, 2023 and 2022, respectively.

The Board of Trustees established a 457(b) deferred compensation plan for key personnel. Total assets held for this plan amounted to \$129,623 and \$124,396 as of July 31, 2023 and 2022 and are included in investments in the accompanying Statements of Financial Position. The corresponding deferred compensation liability is included in accrued compensation in the accompanying Statements of Financial Position. The annual contributions for the year ended July 31, 2022 were \$20,500. There were no contributions for the year ended July 31, 2023. During the year ended July 31, 2023, the sole participant retired and elected a five-year payout with distributions starting in the next fiscal year.

**15. SPLIT-INTEREST AGREEMENTS**

The Collection has been named as a beneficiary in a charitable remainder trust contributed in a prior period. The 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.

The assets of this trust 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 this charitable remainder trust as a contribution receivable, equal to the estimated future cash receipts, discounted at 2.2% over the expected life of the donor. At July 31, 2023 and 2022, the present value of the Collection's interest in this trust was \$4,858,860 and \$4,624,342, respectively. The change in value of this split interest agreement for the years ended July 31, 2023 and 2022 was \$234,518 and \$(1,282,157), 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).

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2023 AND 2022

#### 15. SPLIT-INTEREST AGREEMENTS (Continued)

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 restricted contribution to be maintained in perpetuity in the period the annuity is established.

During the years ended July 31, 2023 and 2022, 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, 2023 and 2022, was \$61,102 and \$48,371, respectively, using discount rates ranging from 1.8% to 5.4% and the applicable mortality tables.

#### 16. 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, 2023 and 2022.

- *Money Market Funds* - Valued at the daily closing price as reported by the fund. The money market funds are 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 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.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**16. FAIR VALUE MEASUREMENT (Continued)**

- *Private and Other Alternative Funds (continued)* - 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 Statements 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total July 31, 2023</u>
<b>Financial Assets:</b>				
Money market funds	\$ 6,285,724	\$ -	\$ -	\$ 6,285,724
Fixed income and blended mutual funds	13,001,822	-	-	13,001,822
Domestic equity mutual funds	12,149,721	-	-	12,149,721
International equity mutual funds	11,432,593	-	-	11,432,593
Global equity mutual funds	135,894	-	-	135,894
Alternative investments	<u>-</u>	<u>-</u>	<u>17,068,729</u>	<u>17,068,729</u>
Sub-total investments at fair value	<u>\$ 43,005,754</u>	<u>\$ -</u>	<u>\$ 17,068,729</u>	60,074,483
Alternative investments measured at net asset value per practical expedient				<u>29,238,631</u>
<b>TOTAL INVESTMENTS</b>				<u><b>\$ 89,313,114</b></u>
<b>Financial Liabilities:</b>				
<i>Gift Annuity Debt</i>	<u>\$ -</u>	<u>\$ 61,102</u>	<u>\$ -</u>	<u>\$ 61,102</u>

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total July 31, 2022</u>
<b>Financial Assets:</b>				
Money market funds	\$ 2,603,055	\$ -	\$ -	\$ 2,603,055
Fixed income and blended mutual funds	16,707,098	-	-	16,707,098
Domestic equity mutual funds	8,571,377	-	-	8,571,377
International equity mutual funds	10,359,974	-	-	10,359,974
Global equity mutual funds	155,558	-	-	155,558
Alternative investments	<u>-</u>	<u>-</u>	<u>16,447,057</u>	<u>16,447,057</u>
Sub total investments at fair value	<u>\$ 38,397,062</u>	<u>\$ -</u>	<u>\$ 16,447,057</u>	54,844,119
Alternative investments measured at net asset value per practical expedient				<u>32,585,446</u>
<b>TOTAL INVESTMENTS</b>				<u><b>\$ 87,429,565</b></u>
<b>Financial Liabilities:</b>				
<i>Gift Annuity Debt</i>	<u>\$ -</u>	<u>\$ 48,371</u>	<u>\$ -</u>	<u>\$ 48,371</u>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**16. FAIR VALUE MEASUREMENT (Continued)**

There were no transfers between levels in the fair value hierarchy during the years ended July 31, 2023 and 2022. Transfers between levels are recorded at the end of the reporting period, if applicable.

The Collection has been admitted as a limited partner in several private funds. Under the terms of the partnership agreements, the required commitments by the Collection were \$27,345,000 and \$27,343,000 of total capital to the partnerships as of July 31, 2023 and 2022, respectively.

Capital contributions are due and payable when requested by the partnerships. As of July 31, 2023 and 2022, the Collection had contributed a total of \$22,736,000 and \$21,294,000, respectively. The remaining capital commitments of \$4,609,000 and \$6,049,000 at July 31, 2023 and 2022, respectively, will be paid when requested by the partnerships.

Alternative investments within the portfolio and are comprised of the following at July 31, 2023:

<u>Investment Type</u>	<u>Amount</u>	<u>Uncalled Commitments</u>	<u>Redemption Period</u>	<u>Liquidity</u>
Private funds & flexible fund holdbacks	\$ 17,088,053	\$ 4,609,000	None	End of partnership
Private funds	3,298,940	-	Annual	December 31, 2023
Flexible capital	9,763,119	-	24 Months	June 30, 2024 - March 31, 2025
Flexible capital	1,824,071	-	Annual	December 31, 2023
Flexible capital	10,258,688	-	Quarterly	September 30, 2023 - December 31, 2023
Flexible capital	<u>4,074,489</u>	<u>-</u>	Monthly	August 31, 2023
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 46,307,360</u></b>	<b><u>\$ 4,609,000</u></b>		

Alternative investments within the portfolio are comprised of the following at July 31, 2022:

<u>Investment Type</u>	<u>Amount</u>	<u>Uncalled Commitments</u>	<u>Redemption Period</u>	<u>Liquidity</u>
Private fund & flexible fund holdbacks	\$ 16,559,859	\$ 6,049,000	None	End of partnership
Private funds	3,320,905	-	Annual	December 31, 2022
Flexible capital	9,467,333	-	18 months	March 31, 2023 - June 30, 2024
Flexible capital	1,737,541	-	Annual	December 31, 2022
Flexible capital	11,584,415	-	Quarterly	September 30, 2022 - December 31, 2022
Flexible capital	<u>6,362,450</u>	<u>-</u>	Monthly	August 31, 2022
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 49,032,503</u></b>	<b><u>\$ 6,049,000</u></b>		

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**16. FAIR VALUE MEASUREMENT (Continued)**

**Private Funds** - This category includes investments in private funds, generally through limited partnerships. The funds may invest in private equity, credit, real estate, infrastructure projects, and natural resources. These investments are illiquid and long-term in nature. Distributions from each fund will be received as the underlying investments and fund are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next one to ten years.

**Flexible Capital** - This category includes direct investments in hedge funds and long-only limited partnerships. These funds may invest in fixed income or equity investments. Some of the managers of these funds have the flexibility to adjust their allocations between fixed income, equity, and other investments (such as currency or interest rates) based on their view of the markets. These funds have various redemption and notice of redemption requirements, ranging from monthly to twenty-four months, that may limit the Collection's ability to liquidate them in a short period of time.

**Level 3 Financial Assets**

The following table provides a summary of changes in fair value of the Collection's financial assets for the year ended July 31, 2023:

Beginning balance as of July 31, 2022	\$ 16,447,057
Capital contributions	2,719,177
Distributions	(2,857,587)
Unrealized and realized gains	<u>760,082</u>
<b>BALANCE AS OF JULY 31, 2023</b>	<b><u>\$ 17,068,729</u></b>

The following table provides a summary of changes in fair value of the Collection's financial assets for the year ended July 31, 2022:

Beginning balance as of July 31, 2021	\$ 12,871,634
Capital contributions	3,882,389
Distributions	(3,322,926)
Unrealized and realized gains	<u>3,015,960</u>
<b>BALANCE AS OF JULY 31, 2022</b>	<b><u>\$ 16,447,057</u></b>

**17. ENDOWMENT**

The Collection's endowment consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including any funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**17. ENDOWMENT (Continued)**

As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Collection considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Collection has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Collection considers the following factors in making a determination to appropriated 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.

Endowment net asset composition by type of fund as of July 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 8,258,620	\$ -	\$ 8,258,620
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	59,872,454	59,872,454
Accumulated investment earnings	<u>1,540,308</u>	<u>15,360,697</u>	<u>16,901,005</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 9,798,928</u></b>	<b><u>\$ 75,233,151</u></b>	<b><u>\$ 85,032,079</u></b>

Changes in endowment net assets for the year ended July 31, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,274,184	\$ 72,877,309	\$ 81,151,493
Art acquisitions	-	(243,651)	(243,651)
Investment earnings, net	824,844	5,298,342	6,123,186
Contributions	4,448,687	337,519	4,786,206
Appropriation of endowment assets for expenditure	(475,387)	(3,017,056)	(3,492,443)
Appropriation to Campaign Expense	-	(19,312)	(19,312)
Appropriation for debt retirement	<u>(3,273,400)</u>	<u>-</u>	<u>(3,273,400)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 9,798,928</u></b>	<b><u>\$ 75,233,151</u></b>	<b><u>\$ 85,032,079</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022**

**17. ENDOWMENT (Continued)**

Endowment net asset composition by type of fund as of July 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 7,083,333	\$ -	\$ 7,083,333
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	59,778,586	59,778,586
Accumulated investment earnings	<u>1,190,851</u>	<u>13,098,723</u>	<u>14,289,574</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 8,274,184</u></b>	<b><u>\$ 72,877,309</u></b>	<b><u>\$ 81,151,493</u></b>

Changes in endowment net assets for the year ended of July 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,751,307	\$ 77,962,874	\$ 85,714,181
Art acquisitions	-	(99,604)	(99,604)
Investment deficit, net	(126,341)	(1,263,450)	(1,389,791)
Contributions	933,333	(387,528)	545,805
Appropriation of endowment assets for expenditure	(284,115)	(2,660,885)	(2,945,000)
Appropriation to Campaign Expense	<u>-</u>	<u>(674,098)</u>	<u>(674,098)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 8,274,184</u></b>	<b><u>\$ 72,877,309</u></b>	<b><u>\$ 81,151,493</u></b>

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, 2023 and 2022, there were no deficiencies of this nature that are reported in net assets without donor restrictions.

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) as well as Board designated funds. 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.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2023 AND 2022

17. **ENDOWMENT (Continued)**

Strategies Employed for Achieving Objectives -

To achieve its investment objective, the endowment assets will be allocated across multiple asset classes in order 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's annual endowment draw for operations is 4.5%. The annual board approved draw is subject to decrease by approval of the Finance Committee of the Board of Trustees. 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.

18. **EXHIBITION EXPENSES**

The Collection has a rich history of presenting world-class exhibitions in Washington, D.C. and beyond, ranging from single-artist retrospectives to historical surveys to explorations of specific topics.

On-site exhibition expenses for the years ended July 31, 2023 and 2022 are reported in the Statements of Functional Expenses as follows:

	<u>2023</u>	<u>2022</u>
Personnel	\$ 5,860	\$ 6,413
Contractual services	158,826	318,004
Other facility costs	100,469	271,948
Administrative expenses*	461,187	636,308
Printing and publications	89,281	57,524
Information technology expenses	4,500	(558)
Fundraising activities and events	101,456	74,009
Marketing and advertising	<u>146,545</u>	<u>101,534</u>
<b>TOTAL EXHIBITION EXPENSES</b>	<b><u>\$ 1,068,124</u></b>	<b><u>\$ 1,465,182</u></b>

\* Administrative expenses primarily consist of shipping, couriers and crating expenses.

19. **SUBSEQUENT EVENTS**

In preparing these financial statements, the Collection has evaluated events and transactions for potential recognition or disclosure through November 14, 2023, the date the financial statements were issued.