

Financial Statements



The Phillips Collection

**For the Years Ended
July 31, 2025 and 2024**

The Phillips Collection

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The Phillips Collection (the Collection), which comprise the statements of financial position as of July 31, 2025 and 2024, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Collection as of July 31, 2025 and 2024, and the results of its changes in 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 (GAAS). 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

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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 GAAS will always detect a material misstatement when it exists. 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 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 GAAS, 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.

Other Information

Management is responsible for the other information included in the Collection's annual report. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Gelman Rosenberg & Freedman

December 8, 2025

The Phillips Collection

Statements of Financial Position As of July 31, 2025 and 2024

ASSETS

	2025	2024
Cash and cash equivalents	\$ 980,121	\$ 871,265
Receivables:		
Accounts receivable, net	2,994,563	19,702
Gifts and grants receivable	1,559,485	1,523,770
ERC receivable	-	1,777,108
Endowment pledges receivable, net	209,934	49,903
Total receivables	<u>4,763,982</u>	<u>3,370,483</u>
Merchandise inventory	438,071	404,300
Prepaid expenses	174,209	200,911
Property and equipment, net	26,011,768	27,218,167
Beneficial interest in charitable remainder trust	6,005,387	5,477,736
Investments	93,458,424	91,388,244
TOTAL ASSETS	<u>\$ 131,831,962</u>	<u>\$ 128,931,106</u>

LIABILITIES AND NET ASSETS

Line-of-credit	\$ -	\$ 200,000
Accounts payable and accrued expenses	877,704	893,242
Accrued compensation	565,869	695,510
Deferred revenue	-	48,767
Financing lease obligations	49,002	80,765
Refundable advance	45,939	45,939
Gift annuity debt	38,040	48,793
Bonds payable, net	4,816,422	5,303,645
Total liabilities	<u>6,392,976</u>	<u>7,316,661</u>
NET ASSETS		
Without donor restrictions		
Undesignated	25,012,747	24,998,182
Board designated	12,970,207	10,099,164
Total net assets without donor restrictions	<u>37,982,954</u>	<u>35,097,346</u>
With donor restrictions	87,456,032	86,517,099
Total net assets	<u>125,438,986</u>	<u>121,614,445</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 131,831,962</u>	<u>\$ 128,931,106</u>

See accompanying notes to financial statements.

The Phillips Collection

Statement of Activities and Changes in Net Assets For the Year Ended July 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Gifts, grants, and corporate support	\$ 6,307,979	\$ 3,890,057	\$ 10,198,036
Fees from exhibitions and loaned art	63,223	-	63,223
Admissions	1,098,787	-	1,098,787
Shop revenue	992,627	-	992,627
Other revenue	535,941	-	535,941
Contributed services and materials	758,418	-	758,418
Endowment earnings transfer, net	6,076,615	-	6,076,615
Net assets released from donor restrictions	1,953,293	(1,953,293)	-
Total support and revenue	17,786,883	1,936,764	19,723,647
EXPENSES			
Personnel	9,542,803	-	9,542,803
Contractual services	1,406,359	-	1,406,359
Insurance	336,183	-	336,183
Utilities	811,187	-	811,187
Other facility costs	982,730	-	982,730
Administrative expenses	1,119,486	-	1,119,486
Printing and publications	298,676	-	298,676
Information and technology expenses	297,941	-	297,941
Fundraising activities and events	751,263	-	751,263
Cost of goods sold	498,890	-	498,890
Marketing and advertising	245,577	-	245,577
Contributed services and materials	758,418	-	758,418
Traveling exhibitions	10,792	-	10,792
Total expenses	17,060,305	-	17,060,305
Changes in net assets from operations before other items	726,578	1,936,764	2,663,342
OTHER ITEMS			
Net non-operating investment earnings, net	584,816	4,211,063	4,795,879
Endowment earnings transfer, net	(2,500,335)	(3,576,280)	(6,076,615)
Non-operating net assets released from restriction	1,545,005	(1,545,005)	-
Sale of de-accessioned art	3,923,522	-	3,923,522
Long-term financing expenses	(229,510)	-	(229,510)
Depreciation of non-operating assets	(1,102,852)	-	(1,102,852)
Art collection acquisitions	(61,616)	(87,609)	(149,225)
Total other items	2,159,030	(997,831)	1,161,199
Changes in net assets	2,885,608	938,933	3,824,541
Net assets at beginning of year	35,097,346	86,517,099	121,614,445
NET ASSETS AT END OF YEAR	\$ 37,982,954	\$ 87,456,032	\$ 125,438,986

See accompanying notes to financial statements.

The Phillips Collection

Statement of Activities and Changes in Net Assets For the Year Ended July 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Gifts, grants, and corporate support	\$ 5,147,207	\$ 2,700,290	\$ 7,847,497
Fees from exhibitions and loaned art	388,746	-	388,746
Admissions	1,219,368	-	1,219,368
Shop revenue	1,035,524	-	1,035,524
Other revenue	284,178	-	284,178
Contributed services and materials	316,197	-	316,197
Endowment earnings transfer, net	6,084,632	-	6,084,632
Net assets released from donor restrictions	2,360,550	(2,360,550)	-
Total support and revenue	16,836,402	339,740	17,176,142
EXPENSES			
Personnel	9,249,293	-	9,249,293
Contractual services	1,647,881	-	1,647,881
Insurance	322,566	-	322,566
Utilities	823,082	-	823,082
Other facility costs	930,536	-	930,536
Administrative expenses	1,311,370	-	1,311,370
Printing and publications	245,301	-	245,301
Information and technology expenses	273,245	-	273,245
Fundraising activities and events	642,344	-	642,344
Cost of goods sold	527,683	-	527,683
Marketing and advertising	253,270	-	253,270
Contributed services and materials	316,197	-	316,197
Traveling exhibitions	133,923	-	133,923
Total expenses	16,676,691	-	16,676,691
Changes in net assets from operations before other items	159,711	339,740	499,451
OTHER ITEMS			
Net non-operating investment earnings, net	1,135,142	7,120,903	8,256,045
Endowment earnings transfer, net	(840,816)	(5,243,816)	(6,084,632)
Non-operating net assets released from restriction	1,168,301	(1,168,301)	-
Long-term financing expenses	(225,239)	-	(225,239)
Depreciation of non-operating assets	(1,097,415)	-	(1,097,415)
Art collection acquisitions	(6,500)	(221,276)	(227,776)
Total other items	133,473	487,510	620,983
Changes in net assets	293,184	827,250	1,120,434
Net assets at beginning of year	34,804,162	85,689,849	120,494,011
NET ASSETS AT END OF YEAR	\$ 35,097,346	\$ 86,517,099	\$ 121,614,445

See accompanying notes to financial statements.

The Phillips Collection

Statement of Functional Expenses For the Year Ended July 31, 2025

	Operational Expenses				Non-Operational Expenses		
	Program Services	Management and General	Fundraising	Total Operational Expenses	Other	Total Non- Operational Expenses	Total Expenses
Personnel	\$ 7,281,672	\$ 928,099	\$ 1,333,032	\$ 9,542,803	\$ -	\$ -	\$ 9,542,803
Contractual services	1,129,069	99,270	178,020	1,406,359	-	-	1,406,359
Insurance	303,090	27,559	5,534	336,183	-	-	336,183
Utilities	621,441	162,313	27,433	811,187	-	-	811,187
Other facility costs*	528,442	445,058	9,230	982,730	1,332,362	1,332,362	2,315,092
Administrative expenses	815,395	181,807	122,284	1,119,486	-	-	1,119,486
Printing and publications	228,451	39,753	30,472	298,676	-	-	298,676
Information technology expenses	198,906	75,195	23,840	297,941	-	-	297,941
Fundraising activities and events	269,670	40,777	440,816	751,263	-	-	751,263
Art collection acquisitions	-	-	-	-	149,225	149,225	149,225
Cost of goods sold	498,890	-	-	498,890	-	-	498,890
Marketing and advertising	241,166	4,411	-	245,577	-	-	245,577
Contributed services and materials	76,058	634,225	48,135	758,418	-	-	758,418
Traveling exhibitions	10,792	-	-	10,792	-	-	10,792
TOTAL	\$ 12,203,042	\$ 2,638,467	\$ 2,218,796	\$ 17,060,305	\$ 1,481,587	\$ 1,481,587	\$ 18,541,892

* 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

See accompanying notes to financial statements.

The Phillips Collection

Statement of Functional Expenses For the Year Ended July 31, 2024

	Operational Expenses				Non-Operational Expenses		
	Program Services	Management and General	Fundraising	Total Operational Expenses	Other	Total Non- Operational Expenses	Total Expenses
Personnel	\$ 7,306,021	\$ 496,792	\$ 1,446,480	\$ 9,249,293	\$ -	\$ -	\$ 9,249,293
Contractual services	1,230,707	151,625	265,549	1,647,881	-	-	1,647,881
Insurance	294,889	22,764	4,913	322,566	-	-	322,566
Utilities	631,532	163,863	27,687	823,082	-	-	823,082
Other facility costs*	500,430	418,377	11,729	930,536	1,322,654	1,322,654	2,253,190
Administrative expenses	1,085,772	112,231	113,367	1,311,370	-	-	1,311,370
Printing and publications	187,059	25,095	33,147	245,301	-	-	245,301
Information technology expenses	180,098	68,485	24,662	273,245	-	-	273,245
Fundraising activities and events	204,741	43,266	394,337	642,344	-	-	642,344
Art collection acquisitions	-	-	-	-	227,776	227,776	227,776
Cost of goods sold	527,683	-	-	527,683	-	-	527,683
Marketing and advertising	246,975	6,295	-	253,270	-	-	253,270
Contributed services and materials	150,226	125,820	40,151	316,197	-	-	316,197
Traveling exhibitions	133,923	-	-	133,923	-	-	133,923
TOTAL	\$ 12,680,056	\$ 1,634,613	\$ 2,362,022	\$ 16,676,691	\$ 1,550,430	\$ 1,550,430	\$ 18,227,121

* 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

See accompanying notes to financial statements.

The Phillips Collection

Statements of Cash Flows For the Years Ended July 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,824,541	\$ 1,120,434
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	1,331,410	1,377,220
Amortization of bond issuance costs	8,461	8,461
Unrealized loss (gain) on investments	5,376,170	(4,774,241)
Realized gain on investments	(8,474,958)	(2,360,529)
Contributions to be invested in perpetuity	(1,383,286)	(832,187)
Art sale proceeds	(2,958,625)	-
Art acquisitions	149,225	227,776
(Increase) decrease in:		
Accounts receivable	(16,236)	(12,774)
Gifts and grants receivable	(35,715)	343,975
ERC receivable	1,777,108	-
Endowment pledges receivable	(160,031)	213,737
Inventories	(33,771)	3,649
Prepaid expenses	26,702	123,501
Other current assets	(527,651)	(618,876)
(Decrease) increase in:		
Accounts payable and accrued expenses	(15,538)	402,918
Accrued compensation	(129,641)	187,512
Deferred revenue	(48,767)	13,025
Net cash used by operating activities	<u>(1,290,602)</u>	<u>(4,576,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(125,011)	(185,192)
Net proceeds from sales of investments	1,028,609	5,059,640
Art acquisitions	(149,225)	(227,776)
Net cash provided by investing activities	<u>754,373</u>	<u>4,646,672</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on line of credit	-	350,000
Principal payments on line of credit	(200,000)	(400,000)
Principal payments on financing lease obligation	(31,763)	(26,700)
Payments under gift annuity agreements	(10,753)	(12,309)
Principal payments on bonds	(495,685)	(478,433)
Contributions to be invested in perpetuity	1,383,286	832,187
Net cash provided by financing activities	<u>645,085</u>	<u>264,745</u>
Net increase in cash and cash equivalents	108,856	335,018
Cash and cash equivalents at beginning of year	871,265	536,247
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 980,121</u></u>	<u><u>\$ 871,265</u></u>

See accompanying notes to financial statements.

The Phillips Collection

Statements of Cash Flows
For the Years Ended July 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	\$ 239,645	\$ 236,742

See accompanying notes to financial statements.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies

Organization

Founded in 1921, The Phillips Collection is a welcoming home for all where the vision and spirit of artists thrive in intimate settings. As the first museum of modern art in the United States, the Phillips houses one of the world's most celebrated Impressionist, Post-Impressionist, and modern art collections, and continues to grow its permanent collection with the work of important living artists. Its distinctive domestically scaled architecture combines three structures built over more than 125 years, among them the former home of the founders, Duncan and Marjorie Phillips. The Phillips's impact extends nationally and internationally through its diverse, scholarly exhibitions; award-winning education programs for educators, students, and adults; and renowned Phillips Music series.

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) related to non-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 follow:

- **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". Net assets set aside 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 that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets 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.

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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Receivables

Accounts receivable primarily consists of amounts due within one year related to fees for visual resources, loaned art, traveling exhibitions, and building rentals. Accounts receivable are recorded at their net realizable value which approximates fair value. Accounts receivable are presented net of an allowance for credit losses resulting from the inability of customers to make required payments. The allowance for credit losses is based upon historical loss experience in combination with current economic conditions and a forecast of future economic conditions. Any change in the assumptions used in analyzing a specific account receivable might result in an additional allowance for credit losses being recognized in the period in which the change occurs.

Gifts, grants, and endowment pledges include unconditional promises to give that are expected to be collected in future years. Gifts, grants, and endowment pledges are recorded at their fair value, which is measured as the present value of the future cash flows. The discount on long-term gifts, grants, and corporate support is computed 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. Amortization of the discount is included in gifts, grants and corporate support in the accompanying Statements of Activities and Changes in Net Assets. No applicable outstanding pledges at July 31, 2025 or 2024 were discounted due to immateriality of potential discount.

Additionally, management periodically reviews the status of all pledge receivable balances for collectability. Each pledge receivable balance is assessed based on management's knowledge of the donor, relationship with the donor, and the age of the receivable balance.

Merchandise Inventory

Inventory consists of merchandise inventory. Inventory is stated at the lower of cost or net realizable value using the average cost method of valuation. Management performs an annual physical count of all merchandise and publications and, as a result, inventory is adjusted annually to agree to the physical count. Therefore, management has not established an allowance for obsolete inventory.

Investments

Investments are recorded at readily determinable fair values. Interest, dividends, realized and unrealized gains and losses are included in investment return, which is presented net of investment expenses paid to fund managers and external investment advisors. 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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

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

Property and Equipment

Property and equipment in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets: building and building renovations - forty years; and furniture and equipment - three, five, ten, or fifteen 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 tax under Section 501(a) of the Internal Revenue Code (IRC), as an organization described in IRC Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements. 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, 2025 and 2024, management does not anticipate any material unrelated business income subject to tax.

Debt Issuance Costs

In accordance with U.S. GAAP, the Collection presents debt issuance costs as a direct deduction from the related debt obligation in the Statements of Financial Position. Amortization of debt issuance costs is calculated on a straight-line basis over the remaining term of the debt obligation. Amortization of the costs is reported as interest expense.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

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 Collection includes guest 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 from Gifts, Grants, and Corporate Support

Gifts, grants, and support from individuals, corporations, foundations and other entities are recognized in the appropriate category of net assets in the period received. The Collection performs an analysis of the individual gift, grant or corporate support transaction to determine if the funding stream follows the contribution rules or if it should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal in accordance with ASC Topic 958.

Contributions 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. Contributions that are unconditional but 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. Contributions with donor restrictions either in excess of expenses incurred or with time restrictions are shown as net assets with donor restrictions in the accompanying financial statements.

Conditional contributions contain a right of return and a measurable barrier. Contributions are recognized when conditions have been satisfied. Conditional contributions received in advance of meeting specified conditions established by donors are recorded as refundable advances. The Collection's refundable advances were \$45,939 as of July 31, 2025 and 2024.

In addition, the Collection may obtain funding source agreements related to conditional contributions, which will be received in future years. The Collection's unrecognized conditional contributions to be received in future years totaled \$0 and \$124,000 as of July 31, 2025 and 2024, respectively.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers

The Collection's fees from exhibitions and loaned art, visual resources, admissions, and shop revenue are the most significant revenue streams that are treated as exchange transaction revenue following ASC Topic 606. Revenue from contracts with customers is recorded when the performance obligations are met. The Collection has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost and/or sales price. Amounts received in advance of satisfying performance obligations are recorded as deferred revenue. The Collection's contracts with customers generally have initial terms of one year or less.

Fees from exhibitions, loaned art, and visual resources are recognized as revenue as performance obligations are satisfied. The Collection recognizes revenue from admissions at the time of entry to the museum. 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, as well as donated materials for special events and other programmatic purposes. 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 presented on a functional basis in the Statements of Functional Expenses. 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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

1. Summary of Significant Accounting Policies (Continued)

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 accompanying financial statements.

2. Investments and Fair Value Measurements

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 accompanying 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 and there were no transfers between levels in the fair value hierarchy during the years ended July 31, 2025 and 2024. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

2. Investments and Fair Value Measurements (Continued)

- *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.
- *Alternative Investments* - Valued by applying the market comparison technique using comparable trading multiples for revenue and EBITDA. The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected revenue and EBITDA of the investee. These funds are not actively traded and thus, have no observable inputs. 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.

U.S. GAAP permits, as a practical expedient, the fair value of investments within scope to be estimated using the net asset value (NAV) or its equivalent. NAV or its equivalent is the value per share or value of ownership interest in partner's capital, as provided by the fund, whose financial statements are prepared in a manner consistent with measurement principles of an investment company or that have the attributes of an investment company. In many instances, NAV will not equal fair value that would be calculated pursuant to the Fair Value Measurement Topic.

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. Following is a description of those alternative investments measured at NAV as a practical expedient:

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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

2. Investments and Fair Value Measurements (Continued)

The table below summarizes investments, which are measured at fair value on a recurring basis, by level within the fair value hierarchy as of July 31, 2025:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	\$ 6,026,496	\$ -	\$ -	\$ 6,026,496
Fixed income and blended mutual funds	15,460,877	-	-	15,460,877
Domestic equity mutual funds	16,438,037	-	-	16,438,037
International equity mutual funds	11,856,328	-	-	11,856,328
Global equity mutual funds	113,659	-	-	113,659
Alternative investments	-	-	18,010,445	18,010,445
Sub total investments using fair value hierarchy	\$ 49,895,397	\$ -	\$ 18,010,445	\$ 67,905,842
Alternative investments measured at net asset value per practical expedient				25,552,582
TOTAL INVESTMENTS				\$ 93,458,424
Financial Liabilities:				
Gift Annuity Debt	\$ -	\$ 38,040	\$ -	\$ 38,040

The table below summarizes investments, which are measured at fair value on a recurring basis, by level within the fair value hierarchy as of July 31, 2024:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	\$ 4,601,696	\$ -	\$ -	\$ 4,601,696
Fixed income and blended mutual funds	13,664,311	-	-	13,664,311
Domestic equity mutual funds	14,340,828	-	-	14,340,828
International equity mutual funds	11,211,275	-	-	11,211,275
Global equity mutual funds	148,273	-	-	148,273
Alternative investments	-	-	18,841,876	18,841,876
Sub total investments using fair value hierarchy	\$ 43,966,383	\$ -	\$ 18,841,876	\$ 62,808,259
Alternative investments measured at net asset value per practical expedient				28,579,985
TOTAL INVESTMENTS				\$ 91,388,244
Financial Liabilities:				
Gift Annuity Debt	\$ -	\$ 48,793	\$ -	\$ 48,793

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

2. Investments and Fair Value Measurements (Continued)

As of July 31, 2025 and 2024, investments held by the Collection for the purposes of the gift annuity agreements (see Note 16) totaled \$310,365 and \$300,469, respectively. The Collection received proceeds of \$15,674,910 and \$12,987,299 on the sale of long-term investments during the years ended July 31, 2025 and 2024, respectively.

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major asset category as of July 31, 2025:

Investment Type	Amount	Uncalled Commitments	Redemption Period	Liquidity
Flexible capital	\$ 6,757,428	\$ -	24 Months	June 30, 2026 - March 30, 2027
Flexible capital	1,464,525	-	Annual	December 31, 2025
Flexible capital	13,088,168	-	Quarterly	September 30, 2025 - December 31, 2025
Flexible capital	4,242,461	-	Monthly	August 31, 2025
ALTERNATIVE INVESTMENTS MEASURED AT NAV	\$ 25,552,582	\$ -		

The following is a summary of the investments valued using NAV as a practical expedient and the related unfunded commitments and redemption restrictions associated with each major asset category as of July 31, 2024:

Investment Type	Amount	Uncalled Commitments	Redemption Period	Liquidity
Flexible capital	\$ 348,563	\$ -	Annual	December 31, 2024
Flexible capital	9,789,953	-	18 Months	March 31, 2025 - June 30, 2026
Flexible capital	1,792,754	-	Annual	December 31, 2024
Flexible capital	11,663,221	-	Quarterly	September 30, 2024 - December 31, 2024
Flexible capital	4,985,494	-	Monthly	August 31, 2024
ALTERNATIVE INVESTMENTS MEASURED AT NAV	\$ 28,579,985	\$ -		

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

2. Investments and Fair Value Measurements (Continued)

Level 3 Investments:

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 approximately \$33,845,000 of total capital to the partnerships as of July 31, 2025 and 2024.

Capital contributions are due and payable when requested by the partnerships. As of July 31, 2025 and 2024, the Collection had contributed a total of \$28,652,000 and \$26,331,000, respectively. The remaining capital commitments of approximately \$5,193,000 and \$7,515,000 at July 31, 2025 and 2024, respectively, will be paid when requested by the partnerships.

The following table provides a summary of changes in fair value of the Collection's Level 3 financial assets for the years ended July 31, 2025 and 2024:

Balance as of July 31, 2023	\$ 17,068,729
Capital contributions	2,901,999
Distributions	(2,024,366)
Unrealized and realized gains	895,514
BALANCE AS OF JULY 31, 2024	<u>18,841,876</u>
Capital contributions	2,683,665
Distributions	(3,935,014)
Unrealized and realized gains	419,918
BALANCE AS OF JULY 31, 2025	<u><u>\$ 18,010,445</u></u>

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 net investment earnings for the year ended July 31, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Investments:			
Interest and dividends	\$ 244,948	\$ 1,765,498	\$ 2,010,446
Net realized and unrealized gain	377,720	2,718,386	3,096,106
Less: investment expenses	(37,852)	(272,821)	(310,673)
NET ENDOWMENT INVESTMENTS EARNINGS	<u><u>\$ 584,816</u></u>	<u><u>\$ 4,211,063</u></u>	<u><u>\$ 4,795,879</u></u>

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

2. Investments and Fair Value Measurements (Continued)

The following summarizes the components of net investment earnings for the year ended July 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Investments:			
Interest and dividends	\$ 192,937	\$ 1,208,623	\$ 1,401,560
Net realized and unrealized gain	979,548	6,145,207	7,124,755
Less: investment expenses	(37,343)	(232,927)	(270,270)
NET ENDOWMENT INVESTMENTS EARNINGS	\$ 1,135,142	\$ 7,120,903	\$ 8,256,045

3. Gifts, Grants, and Endowment 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. Gifts, grants, and endowment pledges receivables are due as follows at July 31, 2025:

	Endowment Pledges	Gifts and Grants Receivable	Total
Less than one year	\$ 59,934	\$ 677,188	\$ 737,122
One to five years	250,000	828,925	1,078,925
Beyond five years	-	60,000	60,000
Total	309,934	1,566,113	1,876,047
Less: Reserve for uncollectible grants	(100,000)	(6,628)	(106,628)
GIFTS, GRANTS, AND ENDOWMENT PLEDGES RECEIVABLE, NET	\$ 209,934	\$ 1,559,485	\$ 1,769,419

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

3. Gifts, Grants, and Endowment Pledges Receivable (Continued)

Gifts, grants, and endowment pledges receivables are due as follows at July 31, 2024:

	Endowment Pledges	Gifts and Grants Receivable	Total
Less than one year	\$ 82,132	\$ 1,310,398	\$ 1,392,530
One to five years	67,771	190,000	257,771
Beyond five years	-	30,000	30,000
Total	<u>149,903</u>	<u>1,530,398</u>	<u>1,680,301</u>
Less: Reserve for uncollectible grants	(100,000)	(6,628)	(106,628)
GIFTS, GRANTS, AND ENDOWMENT PLEDGES RECEIVABLE, NET	<u><u>\$ 49,903</u></u>	<u><u>\$ 1,523,770</u></u>	<u><u>\$ 1,573,673</u></u>

4. Contract Assets and Liabilities

Contract assets consisted of the following revenue streams as of:

	July 31, 2025	July 31, 2024	August 1, 2023
Fees from Exhibitions and Loaned Art	\$ 40,035	\$ 23,799	\$ 11,025
Art acquisitions	2,958,625	-	-
Less: Allowance for credit losses	(4,097)	(4,097)	(4,097)
TOTAL CONTRACT ASSETS	<u><u>\$ 2,994,563</u></u>	<u><u>\$ 19,702</u></u>	<u><u>\$ 6,928</u></u>

The allowance for credit losses consisted of the following as of and for the years ended July 31, 2025 and 2024:

	2025	2024
Allowance for Credit Losses, Beginning of Year	<u><u>\$ 4,097</u></u>	<u><u>\$ 4,097</u></u>

Contract liabilities consisted of the following revenue streams as of:

	July 31, 2025	July 31, 2024	August 1, 2023
Fees from Exhibitions and Loaned Art	<u><u>\$ -</u></u>	<u><u>\$ 48,767</u></u>	<u><u>\$ 35,742</u></u>

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

5. Property and Equipment

Property and equipment consisted of the following as of July 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Land	\$ 833,240	\$ 833,240
Buildings	46,970,979	46,970,979
Equipment	3,149,092	2,927,593
Software and website	514,690	502,865
Construction-in-progress	-	108,312
Total fixed assets	<u>51,468,001</u>	<u>51,342,989</u>
Less: Accumulated depreciation and amortization	(25,456,233)	(24,124,822)
NET PROPERTY AND EQUIPMENT	<u><u>\$ 26,011,768</u></u>	<u><u>\$ 27,218,167</u></u>

6. 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. Sales of deaccessioned artwork, net of commissions and fees, totaled \$3,923,522 and \$0, respectively, for the years ended July 31, 2025 and 2024. Proceeds are restricted by the Board of Trustees and will be used in accordance with The Phillips Collection Collections Management Policy, which is aligned with the Association of Art Museum Directors and also American Alliance of Museums stipulations.

7. Line of Credit

The Collection has an unsecured line of credit payable to a bank with a \$2,000,000 limit. The line bears an interest rate of SOFR plus 2.25%. The interest rate at July 31, 2025 and 2024 was 6.58% and 6.95%, respectively.

There were outstanding balances of \$0 and \$200,000 under the line of credit agreement for the years ended July 31, 2025 and 2024, respectively. The line of credit was renewed with a maturity date of February 2026 and an updated interest rate of SOFR plus 2.25%.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

7. Line of Credit (Continued)

Interest expense on the line of credit for the years ended July 31, 2025 and 2024 was \$17,081 and \$18,065, respectively, and is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

8. 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%.

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.

At July 31, 2025, the Collection's future maturities on the long-term financing are as follows:

Year Ending July 31,	
2026	\$ 519,022
2027	541,569
2028	565,096
2029	589,644
2030	615,260
2031 and Thereafter	2,070,441
Total future maturities	4,901,032
Less: bond issuance costs	(84,610)
TOTAL NET	\$ 4,816,422

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

8. Bonds Payable (Continued)

Long-term financing interest and fees for the years ending July 31, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Long-Term Financing Expenses:		
Bondholder interest and amortization	\$ 228,760	\$ 225,239
Other fees	750	-
TOTAL LONG-TERM FINANCING EXPENSES	<u>\$ 229,510</u>	<u>\$ 225,239</u>

9. Board Designated Net Assets

The Collection's net assets without donor restrictions include certain amounts that have been designated by the Board of Directors.

Board designated net assets included the following as of July 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Board designated endowment funds	\$ 9,061,254	\$ 10,099,164
Sale of de-accessioned art, net of fees and legal costs	3,908,953	-
TOTAL BOARD DESIGNATED NET ASSETS	<u>\$ 12,970,207</u>	<u>\$ 10,099,164</u>

10. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of July 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose:		
Program services	\$ 7,321,923	\$ 8,743,950
Accumulated investment earnings	17,872,567	17,237,784
Subtotal	<u>25,194,490</u>	<u>25,981,734</u>
Subject to passage of time	482,500	52,000
Endowment contributions to be invested in perpetuity	61,779,042	60,483,365
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 87,456,032</u>	<u>\$ 86,517,099</u>

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

10. Net Assets with Donor Restrictions (Continued)

The following net assets with donor restrictions were released for donor restrictions either by incurring expenses which satisfied the restricted purposes specified by the donors or through the passage of time during the years ended July 31, 2025 and 2024:

	2025	2024
Program services	\$ 1,901,293	\$ 2,245,550
Passage of time	52,000	115,000
TOTAL OPERATING NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 1,953,293	\$ 2,360,550
TOTAL NON-OPERATING NET ASSETS (PROGRAM SERVICES) RELEASED FROM RESTRICTIONS	\$ 1,545,005	\$ 1,168,301

11. Liquidity and Availability

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 7) which allows for available borrowings up to \$2,000,000. Board designated funds can also be drawn upon if the Board of Trustees approves such action.

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

	2025	2024
Cash and cash equivalents	\$ 980,121	\$ 871,265
Accounts receivable, net	2,994,563	19,702
ERC receivable	-	1,777,108
Gifts, grants and endowment pledges receivable, current portion	737,122	1,392,530
Investments:		
Earnings appropriated by the Board for expenditure from endowments (both donor-restricted and quasi)	5,559,075	6,076,615
Quasi funds beyond Board appropriated amount included above	7,063,070	7,598,829
Unencumbered operating investments	403,145	387,878
Bond payments required and drawn from Vision investments	717,750	717,750
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 18,454,846	\$ 18,841,677

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

12. Employee Retention Credit

During the year ended July 31, 2023, 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) in the amount of \$1,777,108. This amount remained due and outstanding as of July 31, 2024. During the year ended July 31, 2025, the Collection collected the balance in full.

13. Contributed Services and Materials

During the years ended July 31, 2025 and 2024, the Collection was the beneficiary of donated services and materials which allowed the Collection to provide greater resources toward various programs. Contributed services and materials are valued at the estimated fair value based on current rates or costs for similar professional services or materials if the Collection were to procure the services or materials themselves. There were no donor-imposed restrictions associated with the contributed services and materials during the years ended July 31, 2025 and 2024. In addition, none of the contributed materials were monetized through sale.

To properly reflect total program expenses, the following contributed services and materials have been included in support and expense for the years ended July 31, 2025 and 2024, respectively:

	<u>2025</u>	<u>2024</u>
Contributed legal services	\$ 637,225	\$ 115,385
Contributed guest services	6,454	4,628
Contributed other services	66,504	153,027
Contributed materials for special events	48,135	32,722
Contributed materials for other purposes	100	10,435
TOTAL	<u><u>\$ 758,418</u></u>	<u><u>\$ 316,197</u></u>

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

	<u>2025</u>	<u>2024</u>
Program Services	\$ 8,804	\$ 150,226
Management and General	701,479	125,820
Fundraising	48,135	40,151
TOTAL	<u><u>\$ 758,418</u></u>	<u><u>\$ 316,197</u></u>

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

14. Lease Commitments

The Collection follows FASB ASC 842 for leases. The Collection has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all relevant asset classes. The Collection has also elected to use a risk-free rate as the lease discount rate for all leases as allowed under FASB ASC 842.

The Collection is committed under a noncancelable operating lease for storage space. The lease had a termination date of October 31, 2025. Subsequent to year-end, the Collection amended the lease to extend the term by three years to October 31, 2028. Due to the overall immateriality of the lease, the Collection records expense on this operating lease as paid. Lease expense and cash paid for the years ended July 31, 2025 and 2024 was \$34,361 and \$34,764, respectively, and is included in other facility costs in the accompanying Statements of Activities and Changes in Net Assets.

Future minimum lease payments for the year ending July 31, 2026 are \$8,625.

On January 29, 2016, the Collection entered into a sublease agreement to become a resident at THEARC (Town Hall Education Arts Recreation Campus), an Anacostia-based social service conglomerate serving that community. The sublease became effective on 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 \$56,209 and \$50,818 are included with other facility costs in the accompanying Statements of Activities and Changes in Net Assets for the years ended July 31, 2025 and 2024, respectively. The remaining initial payment of \$19,653 and \$49,132 is included in prepaid expenses in the accompanying Statements of Financial Position for the years ended July 31, 2025 and 2024, respectively.

Financing Leases:

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:

	<u>2025</u>	<u>2024</u>
Financing right-of-use assets	\$ 135,766	\$ 135,766
Less: Accumulated amortization	(88,248)	(61,095)
TOTAL	<u>\$ 47,518</u>	<u>\$ 74,671</u>

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

14. Lease Commitments (Continued)

Future minimum lease payments for the year ending July 31 are as follows:

Year Ending July 31,	
2026	\$ 28,524
2027	26,147
Total	<u>54,671</u>
Less: imputed interest	(5,669)
FINANCE LEASE OBLIGATIONS	<u><u>\$ 49,002</u></u>

Interest expense for the years ended July 31, 2025 and 2024 was \$1,515 and \$1,910, respectively, and is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

15. 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 \$296,203 and \$305,958 for the years ended July 31, 2025 and 2024, respectively.

The Board of Trustees established a 457(b) deferred compensation plan for key personnel. Total assets held for this plan amounted to \$94,375 and \$115,561 as of July 31, 2025 and 2024 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. There were no annual contributions for the years ended July 31, 2025 and 2024. During the years ended July 31, 2024, the sole participant retired and elected a five-year payout with distributions starting in the year ended July 31, 2025.

16. Split-interest Agreements

Charitable Remainder Trust:

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.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

16. Split-interest Agreements (Continued)

At July 31, 2025 and 2024, the present value of the Collection's interest in this trust was \$6,005,387 and \$5,477,736, respectively. The change in value of this split-interest agreement for the years ended July 31, 2025 and 2024 was \$527,651 and \$618,876, respectively. This change in value is included in Gifts, grants, and corporate support on the Statements of Activities and Changes in Net Assets.

Gift Annuity Agreements:

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

During the years ended July 31, 2025 and 2024, 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, 2025 and 2024, was \$38,040 and \$48,793, respectively, using discount rates ranging from 1.8% to 5.4% and the applicable mortality tables.

17. Endowment Funds

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.

Interpretation of Relevant Law -

The Collection has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the District of Columbia as requiring the preservation of the fair value of the original gift made to the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result, of this interpretation, the Collection classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Additionally, in accordance with UPMIFA, the Collection considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

17. Endowment Funds (Continued)

- 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.

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.

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 authorized an exception to the policy permitting long-term debt service to be funded by additional endowment distributions. The Board has and may authorize other exceptions from time to time, including the exception to allow additional endowment distributions for fundraising campaign expenses.

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

17. Endowment Funds (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Collection to retain. As of July 31, 2025 and 2024, there were no deficiencies of this nature that are reported in net assets without donor restrictions.

Endowment funds consisted of the following as of July 31, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 9,142,138	\$ -	\$ 9,142,138
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	61,779,042	61,779,042
Accumulated investment earnings	(80,884)	17,872,567	17,791,683
TOTAL ENDOWMENT FUNDS	\$ 9,061,254	\$ 79,651,609	\$ 88,712,863

Changes in endowment funds consisted of the following as of and for the year ended July 31, 2025:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, beginning of year	\$ 10,099,164	\$ 77,721,149	\$ 87,820,313
Contributions	877,609	1,383,286	2,260,895
Investment earnings, net	584,816	4,211,063	4,795,879
Appropriations of endowment assets for expenditure	(2,500,335)	(3,576,280)	(6,076,615)
Art acquisitions	-	(87,609)	(87,609)
ENDOWMENT FUNDS, END OF YEAR	\$ 9,061,254	\$ 79,651,609	\$ 88,712,863

Endowment funds consisted of the following as of July 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 8,264,530	\$ -	\$ 8,264,530
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	60,483,365	60,483,365
Accumulated investment earnings	1,834,634	17,237,784	19,072,418
TOTAL ENDOWMENT FUNDS	\$ 10,099,164	\$ 77,721,149	\$ 87,820,313

The Phillips Collection

Notes to Financial Statements July 31, 2025 and 2024

17. Endowment Funds (Continued)

Changes in endowment funds consisted of the following as of and for the year ended July 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, beginning of year	\$ 9,798,928	\$ 75,233,151	\$ 85,032,079
Contributions	5,910	832,187	838,097
Investment earnings, net	1,135,142	7,120,903	8,256,045
Appropriations of endowment assets for expenditure	(840,816)	(5,243,816)	(6,084,632)
Art acquisitions	-	(221,276)	(221,276)
ENDOWMENT FUNDS, END OF YEAR	<u>\$ 10,099,164</u>	<u>\$ 77,721,149</u>	<u>\$ 87,820,313</u>

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, 2025 and 2024 are reported in the Statements of Functional Expenses as follows:

	2025	2024
Contractual services	\$ 380,391	\$ 402,365
Other facility costs	139,665	90,233
Administrative expenses*	359,472	619,183
Printing and publications	123,757	78,723
Fundraising activities and events	115,921	67,639
Marketing and advertising	119,688	139,319
TOTAL EXHIBITION EXPENSES	<u>\$ 1,238,894</u>	<u>\$ 1,397,462</u>

* 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 December 8, 2025, the date the financial statements were issued.