

FINANCIAL STATEMENTS



THE PHILLIPS COLLECTION

**FOR THE YEARS ENDED
JULY 31, 2024 AND 2023**

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, 2024 and 2023, 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, 2024 and 2023, 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.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRFCPA.COM

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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".

December 27, 2024

THE PHILLIPS COLLECTION
STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2024 AND 2023

ASSETS

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 871,265	\$ 536,247
Receivables:		
Accounts receivable, net	19,702	6,928
ERC receivable	1,777,108	1,777,108
Gifts and grants	1,523,770	1,867,745
Endowment pledges, net	<u>49,903</u>	<u>263,640</u>
Total receivables	<u>3,370,483</u>	<u>3,915,421</u>
COLLECTIONS (Note 6)		
Merchandise inventory	404,300	407,949
Prepaid expenses	200,911	324,412
Property and equipment, net	27,218,167	28,410,195
Beneficial interest in charitable remainder trust	5,477,736	4,858,860
Investments	<u>91,388,244</u>	<u>89,313,114</u>
TOTAL ASSETS	\$ <u>128,931,106</u>	\$ <u>127,766,198</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Line of credit	\$ 200,000	\$ 250,000
Accounts payable and accrued expenses	893,242	490,324
Accrued compensation	695,510	507,998
Deferred revenue	48,767	35,742
Financing lease obligations	80,765	107,465
Gift annuity debt	48,793	61,102
Refundable advance	45,939	45,939
Bonds payable, net	<u>5,303,645</u>	<u>5,773,617</u>
Total liabilities	<u>7,316,661</u>	<u>7,272,187</u>

NET ASSETS

Without donor restrictions:		
Undesignated	24,998,182	25,005,234
Board designated	<u>10,099,164</u>	<u>9,798,928</u>
Total net assets without donor restrictions	35,097,346	34,804,162
With donor restrictions	<u>86,517,099</u>	<u>85,689,849</u>
Total net assets	<u>121,614,445</u>	<u>120,494,011</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>128,931,106</u>	\$ <u>127,766,198</u>

THE PHILLIPS COLLECTION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>2,360,550</u>	<u>(2,360,550)</u>	<u>-</u>
Total support and revenue	<u>16,836,402</u>	<u>339,740</u>	<u>17,176,142</u>
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	<u>133,923</u>	<u>-</u>	<u>133,923</u>
Total expenses	<u>16,676,691</u>	<u>-</u>	<u>16,676,691</u>
Changes in net assets from operations before other items	159,711	339,740	499,451
OTHER ITEMS			
Non-operating investment earnings, net	294,326	1,877,087	2,171,413
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	<u>(6,500)</u>	<u>(221,276)</u>	<u>(227,776)</u>
Total other items	<u>133,473</u>	<u>487,510</u>	<u>620,983</u>
Changes in net assets	293,184	827,250	1,120,434
Net assets at beginning of year	<u>34,804,162</u>	<u>85,689,849</u>	<u>120,494,011</u>
NET ASSETS AT END OF YEAR	<u>\$ 35,097,346</u>	<u>\$ 86,517,099</u>	<u>\$ 121,614,445</u>

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>
SUPPORT AND REVENUE			
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>
EXPENSES			
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
OTHER ITEMS			
Non-operating investment earnings	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>
Total other items	<u>182,319</u>	<u>809,783</u>	<u>992,102</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>
NET ASSETS AT END OF YEAR	<u>\$ 34,804,162</u>	<u>\$ 85,689,849</u>	<u>\$ 120,494,011</u>

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.

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
TOTAL	\$ 12,011,790	\$ 1,463,847	\$ 1,946,925	\$ 15,422,562	\$ 19,312	\$ 1,806,288	\$ 1,825,600	\$ 17,248,162

* 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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,120,434	\$ 7,153,915
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	1,377,220	1,437,578
Amortization of bond issuance costs	8,461	8,461
Unrealized gain on investments	(4,774,241)	(2,500,912)
Realized gain on investments	(2,360,529)	(2,529,337)
Contributions to be invested in perpetuity	(832,187)	(337,519)
Art acquisitions	227,776	261,851
Change in allowance for doubtful accounts	-	(20,903)
(Increase) decrease in:		
Accounts receivable	(12,774)	(169,157)
ERC receivable	-	(1,777,108)
Gifts and grants	343,975	(100,684)
Endowment pledges receivable	213,737	459,092
Merchandise inventory	3,649	(28,477)
Prepaid expenses	123,501	(96,331)
Beneficial interest in charitable remainder trust	(618,876)	(234,518)
Increase (decrease) in:		
Accounts payable and accrued expenses	402,918	(1,171,885)
Accrued compensation	187,512	48,081
Deferred revenue	<u>13,025</u>	<u>21,750</u>
Net cash (used) provided by operating activities	<u>(4,576,399)</u>	<u>423,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of investments	5,059,640	3,146,700
Purchases of property and equipment	(185,192)	(146,744)
Art acquisitions	<u>(227,776)</u>	<u>(261,851)</u>
Net cash provided by investing activities	<u>4,646,672</u>	<u>2,738,105</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on line of credit	350,000	550,000
Principal payments on line of credit	(400,000)	(920,000)
Principal payments on HVAC loan	-	(3,328,500)
Principal payments on financing lease obligation	(26,700)	(26,145)
Payments under gift annuity agreements	(12,309)	12,731
Principal payments on bonds	(478,433)	(534,935)
Contributions to be invested in perpetuity	<u>832,187</u>	<u>337,519</u>
Net cash provided (used) by financing activities	<u>264,745</u>	<u>(3,909,330)</u>
Net increase (decrease) in cash and cash equivalents	335,018	(747,328)
Cash and cash equivalents at beginning of year	<u>536,247</u>	<u>1,283,575</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 871,265</u></u>	<u><u>\$ 536,247</u></u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u><u>\$ 236,742</u></u>	<u><u>\$ 352,741</u></u>

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

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 welcoming to all as a home for art where the vision and spirit of artists thrive in intimate settings and brings people together to benefit society by providing opportunities to learn and discover, to experience joy and respite. The Phillips strives to serve all segments of the community justly, from the neighborhoods where it lives to the international conversation on art.

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 nonprofit 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". 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.

New accounting pronouncement adopted -

Accounting Standards 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. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Collection that are subject to the guidance in FASB ASC 326 are trade accounts receivable. The Collection implemented the ASU on August 1, 2023, using a modified retrospective approach; however, the impact of the standard was determined to be immaterial to the financial statements as a whole and resulted in enhanced disclosures only.

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, 2024 AND 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(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 evaluated for 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, 2024 or 2023 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.

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.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

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

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, 2024 and 2023, 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.

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.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

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

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 and 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, 2024 or 2023.

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 were approximately \$124,000 and \$276,000 as of July 31, 2024 and 2023, respectively.

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.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

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

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.

Reclassification -

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

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 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.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2024 and 2023. 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.
- *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, 2024 AND 2023**

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>-</u>	<u>-</u>	<u>18,841,876</u>	<u>18,841,876</u>
Sub-total investments at fair value	<u>\$ 43,966,383</u>	<u>\$ -</u>	<u>\$ 18,841,876</u>	62,808,259
Alternative investments measured at net asset value per practical expedient				<u>28,579,985</u>
TOTAL INVESTMENTS				<u>\$ 91,388,244</u>
Financial Liabilities:				
Gift Annuity Debt	<u>\$ -</u>	<u>\$ 48,793</u>	<u>\$ -</u>	<u>\$ 48,793</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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets:				
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>
TOTAL INVESTMENTS				<u>\$ 89,313,114</u>
Financial Liabilities:				
Gift Annuity Debt	<u>\$ -</u>	<u>\$ 61,102</u>	<u>\$ -</u>	<u>\$ 61,102</u>

As of July 31, 2024 and 2023, investments held by the Collection for the purposes of the gift annuity agreements (see Note 15) totaled \$300,469 and \$289,542, respectively. The Collection received proceeds of \$12,987,299 and \$14,597,483 on the sale of long-term investments during the years ended July 31, 2024 and 2023, respectively.

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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 and \$27,345,000 of total capital to the partnerships as of July 31, 2024 and 2023, respectively.

Capital contributions are due and payable when requested by the partnerships. As of July 31, 2024 and 2023, the Collection had contributed a total of \$26,331,000 and \$22,736,000, respectively. The remaining capital commitments of approximately \$7,514,000 and \$4,609,000 at July 31, 2024 and 2023, respectively, will be paid when requested by the partnerships.

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:

<u>Investment Type</u>	<u>Amount</u>	<u>Uncalled Commitments</u>	<u>Redemption Period</u>	<u>Liquidity</u>
Flexible capital	\$ 348,563	\$ -	Annual	December 31, 2024
Flexible capital	9,789,953	-	24 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	<u>4,985,494</u>	<u>-</u>	Monthly	August 31, 2024
ALTERNATIVE INVESTMENTS	<u>\$ 28,579,985</u>	<u>\$ -</u>		

Alternative investments within the portfolio 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>
Flexible capital	\$ 3,318,264	\$ -	Annual	December 31, 2023
Flexible capital	9,763,119	-	18 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
ALTERNATIVE INVESTMENTS	<u>\$ 29,238,631</u>	<u>\$ -</u>		

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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, 2024 and 2023:

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>
BALANCE AS OF JULY 31, 2023	17,068,729
Capital contributions	2,901,999
Distributions	(2,024,366)
Unrealized and realized gains	<u>895,514</u>
BALANCE AS OF JULY 31, 2024	<u>\$ 18,841,876</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, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Investment:			
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	<u>(37,343)</u>	<u>(232,927)</u>	<u>(270,270)</u>
	<u>1,135,142</u>	<u>7,120,903</u>	<u>8,256,045</u>
Other Investments:			
Interest and dividends	21,465	-	21,465
Net realized and unrealized gain	<u>10,015</u>	<u>-</u>	<u>10,015</u>
	<u>31,480</u>	<u>-</u>	<u>31,480</u>
NET INVESTMENT EARNINGS	<u>\$ 1,166,622</u>	<u>\$ 7,120,903</u>	<u>\$ 8,287,525</u>

The following summarizes the components of net 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:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Investment:			
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>
Other Investments:			
Interest and dividends	17,619	111,667	129,286
Net realized and unrealized (loss) 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>
TOTAL INVESTMENT EARNINGS, NET	<u>\$ 825,671</u>	<u>\$ 5,485,301</u>	<u>\$ 6,310,972</u>

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

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, 2024 and 2023:

	2024	2023
Less than one year	\$ 1,392,530	\$ 1,913,677
One to five years	257,771	264,336
Beyond five years	30,000	60,000
Total gifts, grants and endowment pledges receivables	1,680,301	2,238,013
Less: Allowance for doubtful pledges	(106,628)	(106,628)
TOTAL GIFTS, GRANTS, AND ENDOWMENT RECEIVABLES	\$ 1,573,673	\$ 2,131,385

4. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets consisted of the following revenue streams as of:

	July 31, 2024	July 31, 2023	August 1, 2022
Fees from Exhibitions and Loaned Art	\$ 23,799	\$ 11,025	\$ 180,182
Less: Allowance for credit losses	(4,097)	-	-
Less: Allowance for doubtful accounts	-	(4,097)	(25,000)
TOTAL CONTRACT ASSETS	\$ 19,702	\$ 6,928	\$ 155,182

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

Allowance for Credit Losses, Beginning of Year	\$ 4,097
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Contract liabilities consisted of the following revenue streams as of:

	July 31, 2024	July 31, 2023	August 1, 2022
Fees from Exhibitions and Loaned Art	\$ 48,767	\$ 35,742	\$ 13,992

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at July 31, 2024 and 2023:

	2024	2023
Land	\$ 833,240	\$ 833,240
Buildings	46,970,979	46,963,779
Equipment	2,927,593	2,892,918
Construction in process	108,312	-
Software and website	502,865	467,860
Total property and equipment	51,342,989	51,157,797
Less: Accumulated depreciation and amortization	(24,124,822)	(22,747,602)
PROPERTY AND EQUIPMENT, NET	\$ 27,218,167	\$ 28,410,195

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

5. PROPERTY AND EQUIPMENT (Continued)

Included in the cost basis of the property and equipment at July 31, 2024 and 2023 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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Depreciation of operating assets	\$ 279,805	\$ 289,119
Depreciation of non-operating assets	<u>1,097,415</u>	<u>1,148,459</u>
TOTAL DEPRECIATION AND AMORTIZATION	<u>\$ 1,377,220</u>	<u>\$ 1,437,578</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. There were no deaccessions or sales of artwork during each of the years ended July 31, 2024 and 2023.

7. 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, 2024 and 2023 was 6.95% and 6.92%, respectively.

There were outstanding balances of \$200,000 and \$250,000 under the line of credit agreement for the years ended July 31, 2024 and 2023, respectively. 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, 2024 and 2023 was \$18,065 and \$43,710, respectively, and is included under Administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

8. LONG-TERM FINANCING

Bonds Payable:

In July 2003, the District of Columbia (the District) issued \$27,000,000 in revenue bonds, the proceeds of which were loaned to the Collection for the acquisition, renovation and equipping of the property at 1618 21st Street, N.W., Washington, D.C.

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

8. LONG-TERM FINANCING (Continued)

Bonds Payable (continued):

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, 2024, the Collection's future maturities on the long-term financing are as follows:

<u>Year Ending July 31,</u>	<u>Bonds Payable</u>
2025	\$ 495,684
2026	519,022
2027	541,569
2028	565,096
2029	589,644
2030 and Thereafter	<u>2,685,701</u>
Total future maturities	5,396,716
Less: Bond issuance costs	<u>(93,071)</u>
TOTAL NET	<u>\$ 5,303,645</u>

Long-term financing interest and fees for the years ending July 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Long-Term Financing Expenses:		
Non-operating, long-term financing expenses:		
Bondholder interest and amortization	\$ 225,239	\$ 264,398
Term loan interest	-	330
Other fees	-	81,616
HVAC loan interest	-	<u>49,634</u>
TOTAL LONG-TERM FINANCING EXPENSES	<u>\$ 225,239</u>	<u>\$ 395,978</u>

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at July 31, 2024 and 2023:

	2024	2023
Subject to expenditure for specified purpose:		
Program Expenses	\$ 8,743,950	\$ 10,339,698
Accumulated investment earnings	17,237,784	15,360,697
	25,981,734	25,700,395
Subject to passage of time	52,000	117,000
Endowment contributions to be invested in perpetuity	60,483,365	59,872,454
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 86,517,099	\$ 85,689,849

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:

	2024	2023
Program Services	\$ 2,245,550	\$ 1,655,802
Passage of Time	115,000	-
TOTAL OPERATING NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 2,360,550	\$ 1,655,802
TOTAL NON-OPERATING NET ASSETS (PROGRAM SERVICES) RELEASED FROM RESTRICTIONS	\$ 1,168,301	\$ 1,414,811

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:

	2024	2023
Cash and cash equivalents	\$ 871,265	\$ 536,247
Accounts receivable, net	19,702	6,928
ERC receivable	1,777,108	1,777,108
Gifts and grants receivable, current portion	1,352,530	2,094,508
Investments:		
Earnings appropriated by the Board for expenditure from endowments (both donor restricted and quasi)	6,076,615	6,084,632
Unencumbered operating investments	387,878	294,026
Bond payments required and drawn from Vision investments	717,750	707,750
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 11,202,848	\$ 11,501,199

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 \$3,000,000. Board designated funds can also be drawn upon if the Board of Trustees approves such action.

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

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 Statement of Activities and Changes in Net Assets for the year ended July 31, 2023. As of July 31, 2024 and 2023, the total balance remaining to be collected totaled \$1,777,108.

12. CONTRIBUTED SERVICES AND MATERIALS

During the years ended July 31, 2024 and 2023, 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. There were no donor-imposed restrictions associated with the contributed services and materials during the years ended July 31, 2024 and 2023. 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, 2024 and 2023, respectively:

	2024	2023
Contributed legal services	\$ 115,385	\$ 150,387
Contributed guest services	4,628	5,332
Contributed other services	153,027	131,369
Contributed materials for special events	32,722	30,049
Contributed materials for other purposes	10,435	1,300
TOTAL	\$ 316,197	\$ 318,437

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

	2024	2023
Program Services	\$ 150,226	\$ 137,001
Management and General	125,820	151,387
Fundraising	40,151	30,049
TOTAL	\$ 316,197	\$ 318,437

13. 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 has a termination date of October 31, 2025. Due to the overall immateriality of the lease, the Collection records expense on this operating lease as paid.

THE PHILLIPS COLLECTION
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023

13. LEASE COMMITMENTS (Continued)

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

<u>Year Ending July 31,</u>	
2025	\$ 34,361
2026	<u>8,625</u>
	<u>\$ 42,986</u>

Lease expense and cash paid for the years ended July 31, 2024 and 2023 was \$34,764 and \$30,620, respectively, and is included in other facility costs in the accompanying Statements of Activities and Changes in Net Assets.

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 \$50,818 and \$54,631 are included with other facility costs in the accompanying Statements of Activities and Changes in Net Assets for the years ended July 31, 2024 and 2023, respectively. The remaining initial payment of \$49,132 and \$78,612 is included in prepaid expenses in the accompanying Statements of Financial Position for the years ended July 31, 2024 and 2023, 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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Financing right-of-use assets	\$ 135,766	\$ 135,766
Less: Accumulated amortization	<u>(61,095)</u>	<u>(33,941)</u>
TOTAL	<u>\$ 74,671</u>	<u>\$ 101,825</u>

Future minimum lease payments under financing lease obligations at July 31, 2024 are as follows:

<u>Year Ending July 31,</u>	
2025	\$ 28,524
2026	28,524
2027	<u>26,147</u>
	83,195
Less: Interest	<u>(2,430)</u>
FINANCING LEASE OBLIGATION	<u>\$ 80,765</u>

Interest expense for the years ended July 31, 2024 and 2023 was \$1,910 and \$2,379, respectively, and is included under administrative expenses in the accompanying Statements of Activities and Changes in Net Assets.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

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 \$305,957 and \$293,004 for the years ended July 31, 2024 and 2023, respectively.

The Board of Trustees established a 457(b) deferred compensation plan for key personnel. Total assets held for this plan amounted to \$115,561 and \$129,623 as of July 31, 2024 and 2023 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, 2024 and 2023. During the year ended July 31, 2023, the sole participant retired and elected a five-year payout with distributions starting in the year ended July 31, 2024.

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, 2024 and 2023, the present value of the Collection's interest in this trust was \$5,477,736 and \$4,858,860, respectively. The change in value of this split interest agreement for the years ended July 31, 2024 and 2023 was \$618,876 and \$234,518, respectively. This change in value is included in gifts, grants, and corporate support on the Statements of Activities and Changes in Net Assets.

The Collection administers various gift annuity agreements. A gift annuity agreement provides for the payment of distributions to the grantor or other designated beneficiaries over the annuity's term (usually the designated beneficiary's lifetime).

At the end of the annuity's term, the remaining assets are available for the Collection's use. The portion of the annuity attributable to the present value of the future benefits to be received by the Collection is recorded in the Statements of Activities and Changes in Net Assets as a restricted contribution to be maintained in perpetuity in the period the annuity is established.

During the years ended July 31, 2024 and 2023, 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, 2024 and 2023, was \$48,793 and \$61,102, respectively, using discount rates ranging from 1.8% to 5.4% and the applicable mortality tables.

16. 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 PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS JULY 31, 2024 AND 2023

16. ENDOWMENT (Continued)

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 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 PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

16. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued) -

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.

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, 2024 and 2023, 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, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>1,834,634</u>	<u>17,237,784</u>	<u>19,072,418</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 10,099,164</u>	<u>\$ 77,721,149</u>	<u>\$ 87,820,313</u>

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

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

Endowment funds consisted of the following 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>
TOTAL ENDOWMENT FUNDS	<u>\$ 9,798,928</u>	<u>\$ 75,233,151</u>	<u>\$ 85,032,079</u>

THE PHILLIPS COLLECTION

**NOTES TO FINANCIAL STATEMENTS
JULY 31, 2024 AND 2023**

16. ENDOWMENT (Continued)

Changes in endowment funds consisted of the following as of and for the year ended July 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
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	(3,273,400)	-	(3,273,400)
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>9,798,928</u>	\$ <u>75,233,151</u>	\$ <u>85,032,079</u>

17. 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, 2024 and 2023 are reported in the Statements of Functional Expenses as follows:

	2024	2023
Personnel	\$ -	\$ 5,860
Contractual services	402,365	158,826
Other facility costs	90,233	100,469
Administrative expenses*	619,183	461,187
Printing and publications	78,723	89,281
Information technology expenses	-	4,500
Fundraising activities and events	67,639	101,456
Marketing and advertising	139,319	146,545
TOTAL EXHIBITION EXPENSES	\$ <u>1,397,462</u>	\$ <u>1,068,124</u>

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

18. SUBSEQUENT EVENTS

In preparing these financial statements, the Collection has evaluated events and transactions for potential recognition or disclosure through December 27, 2024, the date the financial statements were issued.