

**FINANCIAL STATEMENTS**



**THE PHILLIPS COLLECTION**

**FOR THE YEARS ENDED  
JULY 31, 2021 AND 2020**

# THE PHILLIPS COLLECTION

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**CPAs & ADVISORS**

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of The Phillips Collection (the Collection), which comprise the statements of financial position as of July 31, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Collection as of July 31, 2021 and 2020, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Freedman*

November 11, 2021

**THE PHILLIPS COLLECTION**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JULY 31, 2021 AND 2020**

**ASSETS**

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 572,183	\$ 1,303,405
Receivables:		
Trade, net	559,389	148,494
Gifts and grants	1,412,389	3,182,446
Pledges - Endowment, net	<u>1,422,536</u>	<u>639,337</u>
Total receivables	<u>3,394,314</u>	<u>3,970,277</u>
Merchandise inventory	382,938	354,781
Prepaid expenses	315,591	320,998
Property and equipment, net of accumulated depreciation and amortization of \$19,967,849 and \$18,867,594 in 2021 and 2020, respectively	30,669,935	31,560,972
Beneficial interest in charitable remainder trust	5,906,499	4,925,162
Investments	<u>92,601,976</u>	<u>73,134,153</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>133,843,436</u></b>	<b>\$ <u>115,569,748</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 683,410	\$ 671,749
Accrued compensation	492,148	411,430
Deferred revenue	88,881	332,711
Capital lease obligation	53,704	81,977
Gift annuity debt	60,613	90,658
Note payable	186,534	326,434
Federal loan payable	1,470,526	1,462,886
HVAC loan payable	3,540,800	3,743,700
Bonds payable, net	<u>6,958,295</u>	<u>7,642,768</u>
Total liabilities	<u>13,534,911</u>	<u>14,764,313</u>

**NET ASSETS**

Without donor restrictions:		
Undesignated	21,670,833	21,670,833
Board designated	<u>7,751,307</u>	<u>6,150,000</u>
Total net assets without donor restrictions	29,422,140	27,820,833
With donor restrictions	<u>90,886,385</u>	<u>72,984,602</u>
Total net assets	<u>120,308,525</u>	<u>100,805,435</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>133,843,436</u></b>	<b>\$ <u>115,569,748</u></b>

See accompanying notes to financial statements.

## THE PHILLIPS COLLECTION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JULY 31, 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Gifts, grants and corporate support	\$ 4,096,891	\$ 6,368,578	\$ 10,465,469
Fees from exhibitions and loaned art	257,357	-	257,357
Admissions	155,065	-	155,065
Shop revenue	260,051	-	260,051
Other revenue	21,416	-	21,416
Contributed services and materials	893,378	-	893,378
Endowment earnings transfer, net	1,570,000	-	1,570,000
Net assets released from donor restrictions	<u>3,299,253</u>	<u>(3,299,253)</u>	<u>-</u>
Total support and revenue	<u>10,553,411</u>	<u>3,069,325</u>	<u>13,622,736</u>
<b>EXPENSES</b>			
Personnel	6,840,045	-	6,840,045
Traveling exhibitions	15,000	-	15,000
Contractual services	811,351	-	811,351
Insurance	273,369	-	273,369
Utilities	481,690	-	481,690
Other facility costs	917,917	-	917,917
Administrative expenses	439,981	-	439,981
Printing and publications	219,743	-	219,743
Information technology expenses	364,176	-	364,176
Fundraising activities and events	128,968	-	128,968
Marketing and advertising	196,626	-	196,626
Contributed services and materials	893,378	-	893,378
Cost of goods sold	<u>140,406</u>	<u>-</u>	<u>140,406</u>
Total expenses	<u>11,722,650</u>	<u>-</u>	<u>11,722,650</u>
Changes in net assets from operations before extinguishment of debt and other items	(1,169,239)	3,069,325	1,900,086
Extinguishment of debt	<u>1,391,969</u>	<u>-</u>	<u>1,391,969</u>
Changes in net assets from operations before other items	222,730	3,069,325	3,292,055
<b>OTHER ITEMS</b>			
Non-operating investment earnings, net	1,608,106	16,775,940	18,384,046
Non-operating net assets released from restriction	1,813,899	(1,813,899)	-
Long-term financing expenses	(441,231)	-	(441,231)
Depreciation of non-operating assets	(1,127,983)	-	(1,127,983)
Art collection acquisitions	(70,000)	(129,583)	(199,583)
Campaign expenses	<u>(404,214)</u>	<u>-</u>	<u>(404,214)</u>
Changes in net assets	1,601,307	17,901,783	19,503,090
Net assets at beginning of year	<u>27,820,833</u>	<u>72,984,602</u>	<u>100,805,435</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 29,422,140</u></b>	<b><u>\$ 90,886,385</u></b>	<b><u>\$ 120,308,525</u></b>

## THE PHILLIPS COLLECTION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JULY 31, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Gifts, grants and corporate support	\$ 3,740,784	\$ 3,188,739	\$ 6,929,523
Fees from exhibitions and loaned art	708,806	-	708,806
Admissions	424,028	-	424,028
Shop revenue	552,269	-	552,269
Other revenue	163,141	-	163,141
Contributed services and materials	419,329	-	419,329
Endowment earnings transfer, net	2,928,331	-	2,928,331
Net assets released from donor restrictions	<u>3,252,362</u>	<u>(3,252,362)</u>	<u>-</u>
Total support and revenue	<u>12,189,050</u>	<u>(63,623)</u>	<u>12,125,427</u>
<b>EXPENSES</b>			
Personnel	6,996,628	-	6,996,628
Traveling exhibitions	235,379	-	235,379
Contractual services	494,920	-	494,920
Insurance	275,585	-	275,585
Utilities	530,272	-	530,272
Other facility costs	600,030	-	600,030
Administrative expenses	837,478	-	837,478
Printing and publications	223,235	-	223,235
Information technology expenses	306,884	-	306,884
Fundraising activities and events	252,513	-	252,513
Marketing and advertising	276,578	-	276,578
Contributed services and materials	419,329	-	419,329
Cost of goods sold	<u>288,741</u>	<u>-</u>	<u>288,741</u>
Total expenses	<u>11,737,572</u>	<u>-</u>	<u>11,737,572</u>
Changes in net assets from operations before other items	451,478	(63,623)	387,855
<b>OTHER ITEMS</b>			
Non-operating investment earnings	4,274	535,609	539,883
Non-operating net assets released from restriction	2,249,178	(2,249,178)	-
Long-term financing expenses	(483,312)	-	(483,312)
Depreciation of non-operating assets	(1,125,697)	-	(1,125,697)
Art collection aqizitons	(786,000)	(162,411)	(948,411)
Campaign expenses	<u>(309,921)</u>	<u>-</u>	<u>(309,921)</u>
Changes in net assets	-	(1,939,603)	(1,939,603)
Net assets at beginning of year	<u>27,820,833</u>	<u>74,924,205</u>	<u>102,745,038</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 27,820,833</u></b>	<b><u>\$ 72,984,602</u></b>	<b><u>\$ 100,805,435</u></b>

**THE PHILLIPS COLLECTION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JULY 31, 2021**

	Operational Expenses			Non-Operational Expenses				Total Expenses
	Program Services	Management and General	Fundraising	Total Operational Expenses	Campaign Fundraising	Other	Total Non-Operational Expenses	
Personnel	\$ 5,561,636	\$ 344,323	\$ 934,086	\$ 6,840,045	\$ 308,900	\$ -	\$ 308,900	\$ 7,148,945
Traveling exhibitions	15,000	-	-	15,000	-	-	-	15,000
Contractual services	741,293	37,199	32,859	811,351	89,771	-	89,771	901,122
Insurance	253,174	17,038	3,157	273,369	-	-	-	273,369
Utilities	373,751	90,816	17,123	481,690	-	-	-	481,690
Other facility costs*	509,388	399,384	9,145	917,917	-	1,569,214	1,569,214	2,487,131
Administrative expenses	321,761	69,333	48,887	439,981	313	-	313	440,294
Printing and publications	170,449	12,741	36,553	219,743	1,635	-	1,635	221,378
Information technology expenses	272,212	61,486	30,478	364,176	3,595	-	3,595	367,771
Fundraising activities and events	20,099	2,535	106,334	128,968	-	-	-	128,968
Art collection acquisitions	-	-	-	-	-	199,583	199,583	199,583
Marketing and advertising	190,383	6,243	-	196,626	-	-	-	196,626
Contributed goods and services	618,466	252,671	22,241	893,378	-	-	-	893,378
Cost of goods sold	140,406	-	-	140,406	-	-	-	140,406
<b>TOTAL</b>	<b>\$ 9,188,018</b>	<b>\$ 1,293,769</b>	<b>\$ 1,240,863</b>	<b>\$ 11,722,650</b>	<b>\$ 404,214</b>	<b>\$ 1,768,797</b>	<b>\$ 2,173,011</b>	<b>\$ 13,895,661</b>

\*Included in other facility costs are long-term financing expenses and depreciation of non-operating assets. The non-operational costs 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, 2020**

	Operational Expenses			Non-Operational Expenses				Total Expenses
	Program Services	Management and General	Fundraising	Total Operational Expenses	Campaign Fundraising	Other	Total Non-Operational Expenses	
Personnel	\$ 5,533,169	\$ 407,216	\$ 1,056,243	\$ 6,996,628	\$ 233,006	\$ -	\$ 233,006	\$ 7,229,634
Traveling exhibitions	235,379	-	-	235,379	-	-	-	235,379
Contractual services	441,630	37,632	15,658	494,920	70,348	-	70,348	565,268
Insurance	254,668	17,588	3,329	275,585	-	-	-	275,585
Utilities	411,701	99,704	18,867	530,272	-	-	-	530,272
Other facility costs*	353,927	238,320	7,783	600,030	-	1,609,009	1,609,009	2,209,039
Administrative expenses	673,110	103,014	61,354	837,478	2,464	-	2,464	839,942
Printing and publications	180,757	22,075	20,403	223,235	482	-	482	223,717
Information technology expenses	213,565	63,039	30,280	306,884	3,319	-	3,319	310,203
Fundraising activities and events	145,693	12,022	94,798	252,513	302	-	302	252,815
Art collection acquisitions	-	-	-	-	-	948,411	948,411	948,411
Marketing and advertising	269,776	6,552	250	276,578	-	-	-	276,578
Contributed goods and services	311,909	105,960	1,460	419,329	-	-	-	419,329
Cost of goods sold	288,741	-	-	288,741	-	-	-	288,741
<b>TOTAL</b>	<b>\$ 9,314,025</b>	<b>\$ 1,113,122</b>	<b>\$ 1,310,425</b>	<b>\$ 11,737,572</b>	<b>\$ 309,921</b>	<b>\$ 2,557,420</b>	<b>\$ 2,867,341</b>	<b>\$ 14,604,913</b>

\*Included in other facility costs are long-term financing expenses and depreciation of non-operating assets. The non-operational costs 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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 19,503,090	\$ (1,939,603)
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	1,350,320	1,299,260
Amortization of bond issuance costs	8,461	8,461
Unrealized gain on investments	(14,810,099)	(1,493,644)
Realized gain on investments	(4,520,888)	(1,494,968)
Contributions to be invested in perpetuity	(2,687,223)	(327,524)
Forgiveness of Federal loan payable	(1,391,969)	-
Art acquisitions	199,583	948,411
Change in allowance for doubtful accounts	36,000	100,000
Change in discount on gifts, and grants receivables	-	(16,019)
Change in discount on CSMA campaign and endowment pledges receivable	-	(98,406)
Charitable gift annuities	(17,693)	-
Decrease (increase) in:		
Trade, gifts and grants receivables	1,323,162	6,238,626
CSMA campaign and endowment pledges receivable	(783,199)	581,102
Merchandise inventory	(28,157)	(14,979)
Prepaid expenses	5,407	9,282
Beneficial interest in charitable remainder trust	(981,337)	(216,394)
Increase (decrease) in:		
Accounts payable and accrued expenses	11,661	24,676
Accrued compensation	80,718	(144,204)
Deferred revenue	(243,830)	202,623
Net cash (used) provided by operating activities	<u>(2,945,993)</u>	<u>3,666,700</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of investments	(136,836)	(1,947,883)
Purchase of property and equipment	(459,283)	(718,132)
Art acquisitions	(199,583)	(948,411)
Net cash used by investing activities	<u>(795,702)</u>	<u>(3,614,426)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on line of credit	3,000,000	3,000,000
Payments on line of credit	(3,000,000)	(3,000,000)
Payments on HVAC loan	(202,900)	(177,700)
Payments on capital lease obligations	(28,273)	(27,576)
Payments under gift annuity agreements	(12,352)	(13,729)
Payments on long-term financing	(832,834)	(813,051)
Proceeds on Federal loan payable	1,399,609	1,462,886
Contributions to be invested in perpetuity	2,687,223	327,524
Net cash provided by financing activities	<u>3,010,473</u>	<u>758,354</u>
Net (decrease) increase in cash and cash equivalents	(731,222)	810,628
Cash and cash equivalents at beginning of year	<u>1,303,405</u>	<u>492,777</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 572,183</u></b>	<b><u>\$ 1,303,405</u></b>

See accompanying notes to financial statements.

THE PHILLIPS COLLECTION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JULY 31, 2021 AND 2020

SUPPLEMENTAL INFORMATION	<u>2021</u>	<u>2020</u>
Interest Paid	\$ <u>291,838</u>	\$ <u>319,045</u>

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2021 AND 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

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

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

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

New accounting pronouncement adopted -

During 2021, the Collection adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the Collection recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Collection has elected a modified retrospective approach for implementation.

Cash and cash equivalents -

The Collection considers demand accounts held with financial institutions to be cash equivalents. Amounts held in investment portfolios, in the amount of \$352,802 and \$4,607,193 for the years ended July 31, 2021 and 2020, respectively, regardless of their maturities, are not considered cash equivalents.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

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

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

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

##### Receivables -

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

##### Merchandise inventory -

Merchandise inventory consists of merchandise held for resale by the Collection's Museum Shop and is stated at the lower of cost or net realizable value using the average cost method under the accounting guidance ASU 2015-11, *Simplifying the Measurement of Inventory*.

##### Investments -

Investments are recorded at readily determinable fair values. Investment earnings (losses) include interest, dividends, realized and unrealized gains and losses, net of investment expenses. The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Credit risk from financial instruments relates to the possibility that invested assets within a particular industry segment may experience loss due to market conditions. The Collection has diversified its financial instruments to help ensure that no one industry segment represents a significant concentration of risk.

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

##### Property and equipment -

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

##### Impairment of long lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020

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

Impairment of long lived assets (continued) -

When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statement of Activities and Changes in Net Assets, to its current fair value.

Income taxes -

The Collection is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Collection is not a private foundation. Although the Collection is organized as a non-profit corporation, certain revenue derived from its flexible capital and private funds is considered unrelated business income and subject to taxation by the Internal Revenue Service and the District of Columbia. For the years ended July 31, 2021 and 2020, management does not anticipate any material unrelated business income subject to tax.

Uncertain tax positions -

For the years ended July 31, 2021 and 2020, the Collection has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Deferred revenue -

Deferred revenue consists of facilities rental fees, exhibition fees, and member trip fees for upcoming events. Deferred revenue consisted of the following as of July 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Events	\$ -	\$ 233,779
Grants	45,939	45,939
Facilities rental fees	38,175	45,225
Other	<u>4,767</u>	<u>7,768</u>
<b>TOTAL DEFERRED REVENUE</b>	<b><u>\$ 88,881</u></b>	<b><u>\$ 332,711</u></b>

Program services -

The Collection's programmatic activities include those associated with the preservation and exhibition of the collection, such as curatorial, conservation, registrar, and library functions; and those activities designed to inform the public about the collection and its history, such as education, communications, publications, and the music program. The University of Maryland Center for Art and Knowledge at The Phillips Collection (a research and academic arm of the Collection) and THEARC (a shared facility in Southeast Washington, D.C.), are integral to the Collection's programmatic activities. In addition, The Collection includes visitor amenities and services associated with its public outreach under the programmatic heading.

Spending rate methodology -

The Collection uses a spending rate methodology to determine the amount of endowment investment income included in operating revenue as described in the total return policy. Endowment investment income in excess of the spending rate is reported as a non-operating activity.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

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

##### Spending rate methodology (continued) -

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.

##### Debt issuance costs -

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

##### Support and revenue recognition -

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

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

Gifts, grants and corporate support qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Collection recognizes revenue for these conditional contributions when the related barrier has been overcome. Funds received in advance of the conditions being satisfied are recorded as refundable advances. For contributions and grants and contracts treated as conditional contributions, the Collection had approximately \$42,450 and \$436,116 in unrecognized conditional awards as of July 31, 2021 and 2020, respectively.

In accordance with FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts With Customers* ("ASC 606"), the Collection recognizes revenue when control of the promised goods or services is transferred to the Collection's outside parties in an amount that reflects the consideration the Collection expects to be entitled to in exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

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

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

ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Collection has elected to opt out of all (or certain) disclosures not required for nonpublic entities and has identified fees from exhibitions and loaned art, admissions, and shop revenue as categories subject to the adoption of ASC 606. The Collection recognizes contracts with customers, as goods or services are transferred or provided in accordance with ASC 606. The results of applying ASC 606, using the modified retrospective approach, did not have a material impact on the financial statements, business processes, controls or systems of the Collection.

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

##### Contributed services and materials -

Contributed services and materials primarily consist of legal and program administration services. Contributed services and materials are recorded at their fair value as of the date of the gift.

##### Use of estimates -

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

##### Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of 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.

##### Fair value measurement -

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



## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

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

##### Fair value measurement (continued) -

The Collection accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

The Collection also follows the provision ASU 2015-07, *Fair Value Measurement* which was adopted during the year ended July 31, 2018. The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient.

##### New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Collection plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption methods and the impacts of the new standards on its accompanying financial statements.

##### Reclassification -

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

##### Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Collection's operations. The overall potential impact is unknown at this time.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**2. INVESTMENTS**

Investments consisted of the following at July 31, 2021 and 2020:

	<b>Fair Value</b>	
	<b>2021</b>	<b>2020</b>
Money market funds	\$ 2,418,059	\$ 4,607,193
Fixed income and blended mutual funds	15,397,148	10,495,396
Domestic equity mutual funds	14,104,901	11,219,175
International equity mutual funds	12,871,283	8,545,050
Global equity mutual funds	152,076	2,001,289
Alternative investments	47,658,509	36,266,050
<b>TOTAL INVESTMENTS</b>	<b>\$ 92,601,976</b>	<b>\$ 73,134,153</b>

As of July 31, 2021 and 2020, investments held by the Collection for the purposes of the gift annuity agreements (see Note 16) totaled \$352,802 and \$311,002, respectively. The Collection received proceeds of \$16,416,983 and \$9,555,815 on the sale of long-term investments during the years ended July 31, 2021 and 2020, respectively.

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

The following summarizes the components of investment income and shows how they are presented in the Statement of Activities and Changes in Net Assets for the year ended July 31, 2021:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Endowment Investment:</b>			
Interest and dividends	\$ 67,944	\$ 685,282	\$ 753,226
Net realized and unrealized gain	1,694,855	16,972,307	18,667,162
Less: Investment expenses	(18,899)	(188,695)	(207,594)
	1,743,900	17,468,894	19,212,794
<b>Other Investments:</b>			
Interest and dividends	5,085	72,643	77,728
Net realized and unrealized gain	(7)	663,832	663,825
Less: Investment expenses	6,799	(2,022)	4,777
	11,877	734,453	746,330
<b>TOTAL INVESTMENT INCOME, NET</b>	<b>\$ 1,755,777</b>	<b>\$ 18,203,347</b>	<b>\$ 19,959,124</b>

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2021 AND 2020**

**2. INVESTMENTS (Continued)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>As Reported in the Statement of Activities and Changes in Net Assets:</b>			
Non-operating investment earnings:			
Endowment gain, net of transfer for operations	\$ 1,601,307	\$ 16,041,487	\$ 17,642,794
Non-endowment gain	<u>6,799</u>	<u>734,453</u>	<u>741,252</u>
	<u>1,608,106</u>	<u>16,775,940</u>	<u>18,384,046</u>
Earnings included in other revenue	5,078	-	5,078
Endowment earnings transfer for operations	<u>1,570,000</u>	<u>-</u>	<u>1,570,000</u>
<b>TOTAL NON-OPERATING INVESTMENT EARNINGS, NET</b>	<b><u>\$ 3,183,184</u></b>	<b><u>\$ 16,775,940</u></b>	<b><u>\$ 19,959,124</u></b>
<b>UNREALIZED GAIN ONLY</b>	<b><u>\$ 1,290,422</u></b>	<b><u>\$ 13,519,677</u></b>	<b><u>\$ 14,810,099</u></b>

The following summarizes the components of investment income and shows how they are presented in the Statement of Activities and Changes in Net Assets for the year ended July 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment Investment:</b>			
Interest and dividends	\$ -	\$ 719,976	\$ 719,976
Net realized and unrealized gain	-	2,639,579	2,639,579
Less: Investment expenses	<u>-</u>	<u>(259,956)</u>	<u>(259,956)</u>
	<u>-</u>	<u>3,099,599</u>	<u>3,099,599</u>
<b>Other Investments:</b>			
Interest and dividends	12,297	25,136	37,433
Net realized and unrealized gain	6,735	342,298	349,033
Less: Investment expenses	<u>4,274</u>	<u>(3,093)</u>	<u>1,181</u>
	<u>23,306</u>	<u>364,341</u>	<u>387,647</u>
<b>TOTAL INVESTMENT INCOME, NET</b>	<b><u>\$ 23,306</u></b>	<b><u>\$ 3,463,940</u></b>	<b><u>\$ 3,487,246</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**2. INVESTMENTS (Continued)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>As Reported in the Statement of Activities and Changes in Net Assets:</b>			
Non-operating investment earnings:			
Endowment gain, net of transfer for operations	\$ -	\$ 171,268	\$ 171,268
Non-endowment gain	<u>4,274</u>	<u>364,341</u>	<u>368,615</u>
	<u>4,274</u>	<u>535,609</u>	<u>539,883</u>
Earnings included in other revenue	19,032	-	19,032
Endowment earnings transfer for operations	<u>2,928,331</u>	<u>-</u>	<u>2,928,331</u>
<b>TOTAL NON-OPERATING INVESTMENT EARNINGS, NET</b>	<b><u>\$ 2,951,637</u></b>	<b><u>\$ 535,609</u></b>	<b><u>\$ 3,487,246</u></b>
<b>UNREALIZED GAIN ONLY</b>	<b><u>\$ 6,735</u></b>	<b><u>\$ 1,486,909</u></b>	<b><u>\$ 1,493,644</u></b>

**3. TRADE, GIFTS, GRANTS AND PLEDGES RECEIVABLE**

The Collection receives promises to contribute from donors. Promises to contribute primarily consist of pledges, bequests, grants and charitable remainder trusts. Promises to contribute related to the CSMA campaign were recorded as revenue subject to donor-imposed purpose restrictions.

Promises to contribute related to the Collection's endowment campaign are recorded as revenue with donor restrictions to be invested in perpetuity. Management periodically reviews the status of all pledge receivable balances for collectibility. Each receivable balance is assessed based on management's knowledge of the donor, relationship with the donor, and the age of the receivable balance.

The loss on uncollectible pledges recorded in gifts, grants and corporate support in the Statement of Activities and Changes in Net Assets totaled \$36,000 and \$115,500 for the years ended July 31, 2021 and 2020, respectively. All pledges receivable due in more than one year have been discounted to their net present value at July 31, 2021 and 2020. The discount rate is 1.84% and was determined using the U.S. Treasury Daily Treasury Yield Curve Rate for the term closest to time period of expected receipt on the day the Collection was notified of the pledge.

Trade, gifts, grants, and pledges receivables are due as follows at July 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 2,696,638	\$ 3,899,309
One to five years	<u>841,208</u>	<u>178,500</u>
Total trade, gifts, grants and pledges receivables	3,537,846	4,077,809
Less: Present value discount	(904)	(904)
Less: Allowance for doubtful pledges	<u>(142,628)</u>	<u>(106,628)</u>
<b>TOTAL RECEIVABLES</b>	<b><u>\$ 3,394,314</u></b>	<b><u>\$ 3,970,277</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at July 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Land	\$ 833,240	\$ 833,240
Buildings	46,640,520	46,588,353
Equipment	2,733,006	2,473,872
Software and website	431,018	533,101
Total property and equipment	50,637,784	50,428,566
Less: Accumulated depreciation and amortization	(19,967,849)	(18,867,594)
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>\$ 30,669,935</b>	<b>\$ 31,560,972</b>

Included in the cost basis of the property and equipment at July 31, 2021 and 2020 is \$1,463,005 of restricted fixed assets in perpetuity. These fixed assets 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 fixed assets without donor restrictions consisted of the following for the years ended July 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Depreciation of operating assets	\$ 222,337	\$ 173,563
Depreciation of non-operating assets	1,127,983	1,125,697
<b>TOTAL DEPRECIATION AND AMORTIZATION</b>	<b>\$ 1,350,320</b>	<b>\$ 1,299,260</b>

**5. ART COLLECTION**

Works of art in the Museum's collection are not recognized as assets on the Statements of Financial Position. Purchases of art are recorded as decreases in net assets without donor restrictions if purchased with assets without donor restrictions and are recorded as decreases in net assets with donor restrictions if purchased with donor-restricted assets.

Contributions of collection items are not recognized in the Statement 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 Statement 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, 2021 and 2020.

**6. LINE OF CREDIT**

The Collection has an unsecured line of credit payable to a bank with a \$3,000,000 limit. The line expires on March 31, 2023. The line bears an interest rate of LIBOR plus 1.5%. The interest rate at July 31, 2021 and 2020 was 1.60% and 1.67%, respectively. There were no outstanding balances under the line of credit agreement for the years ended July 31, 2021 and 2020.

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2021 AND 2020**

**6. LINE OF CREDIT (Continued)**

Interest expense on the line of credit of \$28,846 and \$31,461 is included under Administrative expenses in the accompanying Statement of Activities and Changes in Net Assets during the years ended July 31, 2021 and 2020, respectively.

**7. CAPITAL LEASE OBLIGATION**

The Collection leases certain office equipment that has been capitalized and included in property and equipment in the Statements of Financial Position. The equipment obtained under capital leases consisted of the following at July 31, 2021 and 2020.

	<b>2021</b>	<b>2020</b>
Cost	\$ 141,199	\$ 141,199
Less: Accumulated amortization	(84,719)	(56,479)
<b>TOTAL</b>	<b>\$ 56,480</b>	<b>\$ 84,720</b>

Future minimum lease payments under capital lease obligations at July 31, 2021 are as follows:

<b>Year Ending July 31,</b>			
2022	\$	30,000	
2023		25,000	
		55,000	
Less: Interest		(1,296)	
<b>CAPITAL LEASE OBLIGATION</b>	<b>\$</b>	<b>53,704</b>	

Interest expense for the years ended July 31, 2021 and 2020 was \$1,903 and \$2,424, respectively, and is included under Administrative expenses in the accompanying financial statements during the years ended July 31, 2021 and 2020, respectively.

**8. LONG-TERM FINANCING**

Bonds Payable:

In July 2003, the District of Columbia (the District) issued \$27,000,000 in revenue bonds, the proceeds of which were loaned to the Collection for the acquisition, renovation and equipping of the property at 1618 21st Street, N.W., Washington, D.C. The bonds were issued in two tranches representing different repayment schedules. The term of the bonds was to end in 2030. In order to facilitate the issuance and marketability of the bonds, the Collection obtained an irrevocable letter of credit which, with subsequent extensions, was set to expire in July 2016.

Obligations of the bonds 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.

**THE PHILLIPS COLLECTION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2021 AND 2020**

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

Bonds Payable (continued):

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%. On November 1, 2022, the remaining principal balance of \$6,181,875 on the loan will be due and payable. The Collection will either be required to pay off the balance or obtain additional financing.

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

Note Payable:

With the restructuring, the Remarketing Agreement and the letter of credit were terminated. Existing swaps were also terminated and a variable rate term loan was obtained through the same purchaser to finance the termination costs. This ten year term loan with an original balance of \$1,399,000 is paid in monthly installments of \$11,658 plus interest at a variable rate of LIBOR plus 200 bps. The interest rate at July 31, 2021 and 2020 was 2.10% and 2.17%, respectively.

HVAC Loan Payable:

In March 2017, the Collection entered into a term loan agreement with a bank for \$4,000,000 in financing to assist with modernization of the HVAC system in the original house. The loan matures in 2022 and bears a fixed interest rate of 4.5%.

Until April 2019, the Collection was obligated for interest payments only. At maturity, any remaining debt obligation may be subject to refinancing. The full \$4,000,000 was drawn in March 2017 under the terms of the loan agreement.

At July 31, 2021, the Collection's future maturities on the long-term financing are as follows:

<u>Year Ending July 31,</u>	<u>Bonds Payable</u>	<u>Note Payable</u>	<u>HVAC Loan Payable</u>	<u>Total</u>
2022	\$ 713,299	\$ 139,900	\$ 212,300	\$ 1,065,499
2023	<u>6,363,451</u>	<u>46,634</u>	<u>3,328,500</u>	<u>9,738,585</u>
Total future maturities	7,076,750	186,534	3,540,800	10,804,084
Less: Bond issuance costs	<u>(118,455)</u>	<u>-</u>	<u>-</u>	<u>(118,455)</u>
<b>TOTAL, NET</b>	<b><u>\$ 6,958,295</u></b>	<b><u>\$ 186,534</u></b>	<b><u>\$ 3,540,800</u></b>	<b><u>\$ 10,685,629</u></b>

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

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

Long-term financing interest and fees for the years ending July 31, 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
<b>Long-Term Financing Expenses:</b>		
Non-operating, long-term financing expenses:		
Bondholder interest and amortization	\$ 268,801	\$ 292,871
Term loan interest	5,413	13,598
Other fees	750	975
HVAC loan interest	166,267	175,868
<b>TOTAL LONG-TERM FINANCING EXPENSES</b>	<b>\$ 441,231</b>	<b>\$ 483,312</b>

**9. FEDERAL LOAN PAYABLE**

On May 2, 2020, the Collection received loan proceeds in the amount of \$1,462,886 under the Paycheck Protection Program. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. During 2021, the Collection received partial forgiveness of the loan in the amount of \$1,391,969, which has been presented as an other item in the accompanying Statement of Activities and Change in Net Assets, leaving a remaining balance of \$70,917. Subsequent to year-end, the Collection repaid this amount in full.

On March 25, 2021, the Collection received loan proceeds in the amount of \$1,399,609 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first seventeen months.

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. The Collection intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. The Collection intends to apply for forgiveness after completing the 24 week period. If forgiveness is granted, the Collection will record revenue from debt extinguishment during the period that forgiveness was approved.

Principal payments as stated in the promissory notes are due as follows unless otherwise forgiven:

**Year Ending July 31,**

2022	\$ 70,917
2023	381,712
2024	381,712
2025	381,712
2026	254,473
	<b>\$ 1,470,526</b>



**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**10. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at July 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Program Expenses	\$ 12,368,511	\$ 13,457,763
Accumulated investment earnings	<u>17,697,156</u>	<u>2,002,789</u>
	<u>30,065,667</u>	<u>15,460,552</u>
Subject to passage of time	555,000	1,594,855
Endowment contributions to be invested in perpetuity	<u>60,265,718</u>	<u>55,929,195</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 90,886,385</u></b>	<b><u>\$ 72,984,602</u></b>

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

	<u>2021</u>	<u>2020</u>
Program Services	\$ 2,204,398	\$ 2,512,362
Passage of Time	<u>1,094,855</u>	<u>740,000</u>
<b>TOTAL OPERATING NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 3,299,253</u></b>	<b><u>\$ 3,252,362</u></b>
<b>TOTAL NON-OPERATING NET ASSETS (PROGRAM SERVICES) RELEASED FROM RESTRICTION</b>	<b><u>\$ 1,813,899</u></b>	<b><u>\$ 2,249,178</u></b>

**11. LIQUIDITY AND AVAILABILITY**

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 572,183	\$ 1,303,405
Trade receivables	559,389	148,494
Gifts and grants receivable, current portion	1,412,389	3,182,446
Investments:		
Earnings appropriated by the Board for expenditure from endowments (both donor restricted and quasi)	3,565,000	3,000,781
Campaign expenses approved for expenditure by Board	457,400	463,150
Bond payments required and drawn from Vision investments	<u>1,093,761</u>	<u>1,099,336</u>
Subtotal financial assets available within one year	7,660,122	9,197,612
Less: Donor restricted funds for which cash outlay will not be used within one year	<u>(183,742)</u>	<u>(1,370,199)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 7,476,380</u></b>	<b><u>\$ 7,827,413</u></b>

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

#### 11. LIQUIDITY AND AVAILABILITY (Continued)

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

#### 12. CONTRIBUTED SERVICES AND MATERIALS

During the years ended July 31, 2021 and 2020, the Collection was the beneficiary of donated services and materials consisting primarily of legal and program administration services for membership, communications, visitor services and education. The fair value of these services and materials was estimated to be \$893,378 and \$419,329 for the years ended July 31, 2021 and 2020, respectively.

#### 13. LEASE COMMITMENTS

The Collection is committed under a noncancelable operating lease for storage space. The lease was initiated September 30, 2016 for five years. Subsequent to year-end, this lease was renewed with a new termination date of October 31, 2022.

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

##### Year Ending July 31,

2022	\$ 29,703
2023	<u>7,476</u>
	<u>\$ 37,179</u>

Rent expense for the years ended July 31, 2021 and 2020 was \$28,862 and \$27,113, respectively, and is included in Other facility costs in the accompanying financial statements.

On January 29, 2016, the Collection entered into a sublease agreement with Building Bridges Across the River to become a resident at THEARC (Town Hall Education Arts Recreation Campus), an Anacostia-based social service conglomerate serving that community. The Collection will provide programs for both K-12 and senior populations. The sublease became effective upon the completion of a third building within THEARC complex which occurred November 10, 2017 and will expire November 2027. Rental expenses consist of the Collection's share of monthly operating costs and amortization of the initial payment of \$247,728 for the space construction over the lease period. Rental expenses of \$43,056 and \$47,017 are included with Other facility costs in the accompanying financial statements for the years ended July 31, 2021 and 2020, respectively. The remaining initial payment of \$137,571 and 167,051 are included in Prepaid expenses in the accompanying Statements of Financial Position for the years ended July 31, 2021 and 2020, respectively.

#### 14. RETIREMENT PLAN

The Collection sponsors a defined contribution 403(b) retirement plan available to any employee who meets certain age and length of service requirements. The Plan allows for employer contributions of up to 8.4% of participant annual compensation.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

#### 14. RETIREMENT PLAN (Continued)

The Collection's contributions under the Plan amounted to \$292,803 and \$268,658 for the years ended July 31, 2021 and 2020, respectively.

The Board of Trustees established a 457(b) deferred compensation plan for key personnel. Total assets held for this plan amounted to \$114,943 and \$80,082 as of July 31, 2021 and 2020 and are included in investments on the accompanying Statements of Financial Position. The annual contributions for the years ended July 31, 2021 and 2020 were \$19,500 and \$19,500, respectively. The contribution for the year ended July 31, 2021 was accrued and funded in the subsequent fiscal year.

#### 15. COMMITMENTS

In October 2015, the Collection entered into a six year partnership agreement with the University of Maryland (UMD), to expand the arts curriculum at the University, provide additional faculty research opportunities, enhance the post-doctoral fellowship program at the Collection, enable the digitization of the museum's library and archives, and invigorate arts-related programming at both the Collection and UMD. As part of the partnership, UMD will make contributions totaling \$3 million to the Collection to support these enhanced activities. This partnership was fully funded subsequent to the year ended July 31, 2021.

#### 16. 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 these charitable remainder trusts 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, 2021 and 2020, the present value of the Collection's interest in this trust was \$5,906,499 and \$4,925,162, respectively, and is recorded in CSMA campaign and Endowment pledges receivable on the Statements of Financial Position. The change in value of this split interest agreement for the years ended July 31, 2021 and 2020 was \$981,337 and \$216,394, respectively. This change in value is included in gifts, grants, and corporate support on the Statement 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 Statement 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, 2021 and 2020, 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, 2021 and 2020, was \$60,613 and \$90,658, respectively, using discount rates ranging from 1.8% to 5.4% and the applicable mortality tables.

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

#### 17. FAIR VALUE MEASUREMENT

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

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

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at July 31, 2021 and 2020.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Collection are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Collection are deemed to be actively traded.
- *Private and other alternative funds* - These instruments do not have a readily determinable fair value and are measured using the NAV per share (or its equivalent) as a practical expedient. The fair values used are generally determined by the general partner or management of the entity, and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships. In accordance with Subtopic 820-10, these instruments have not been categorized in the fair value hierarchy; however, the fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Financial Position.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**17. FAIR VALUE MEASUREMENT (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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total July 31, 2021</u>
<b>Financial Assets:</b>				
Money market funds	\$ 2,418,059	\$ -	\$ -	\$ 2,418,059
Fixed income and blended mutual funds	15,397,148	-	-	15,397,148
Domestic equity mutual funds	14,104,901	-	-	14,104,901
International equity mutual funds	12,871,283	-	-	12,871,283
Global equity mutual funds	152,076	-	-	152,076
Alternative investments	<u>-</u>	<u>-</u>	<u>12,871,634</u>	<u>12,871,634</u>
Sub-total investments at fair value	<u>\$ 44,943,467</u>	<u>\$ -</u>	<u>\$ 12,871,634</u>	57,815,101
Alternative investments measured at net asset value per practical expedient				<u>34,786,875</u>
<b>TOTAL INVESTMENTS</b>				<b><u>\$ 92,601,976</u></b>

<b>Financial Liabilities:</b>				
<i>Gift Annuity Debt</i>	<u>\$ -</u>	<u>\$ 60,613</u>	<u>\$ -</u>	<u>\$ 60,613</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 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total July 30, 2020</u>
<b>Financial Assets:</b>				
Money market funds	\$ 4,607,193	\$ -	\$ -	\$ 4,607,193
Fixed income and blended mutual funds	10,495,396	-	-	10,495,396
Domestic equity mutual funds	11,219,175	-	-	11,219,175
International equity mutual funds	8,545,050	-	-	8,545,050
Global equity mutual funds	<u>2,001,289</u>	<u>-</u>	<u>-</u>	<u>2,001,289</u>
Sub total investments at fair value	<u>\$ 36,868,103</u>	<u>\$ -</u>	<u>\$ -</u>	36,868,103
Alternative investments measured at net asset value per practical expedient				<u>36,266,050</u>
<b>TOTAL INVESTMENTS</b>				<b><u>\$ 73,134,153</u></b>
<b>Financial Liabilities:</b>				
<i>Gift Annuity Debt</i>	<u>\$ -</u>	<u>\$ 90,658</u>	<u>\$ -</u>	<u>\$ 90,658</u>

During the year ended July 31, 2021, 19 funds were transferred from those measured at net asset value to level 3. There were no transfers between levels in the fair value hierarchy during the year ended July 31, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable.

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**17. FAIR VALUE MEASUREMENT (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 was \$23,353,665 and \$19,603,090 of total capital to the partnerships as of July 31, 2021 and 2020, respectively.

Capital contributions are due and payable when requested by the partnerships. As of July 31, 2021 and 2020, the Collection had contributed a total of \$17,709,367 and \$4,607,193, respectively. The remaining capital commitment of \$5,644,298 and \$4,520,414 at July 31, 2021 and 2020, respectively, will be paid when requested by the partnerships.

Alternative investments within the portfolio and are comprised of the following at July 31, 2021:

<u>Investment Type</u>	<u>Amount</u>	<u>Uncalled Commitments</u>	<u>Redemption Period</u>	<u>Liquidity</u>
Private funds	\$ 12,871,896	\$ 5,644,298	None	End of partnership
Private funds	3,317,052	-	Annual	December 31, 2021
Flexible capital	6,573,402	-	18 Months	March 31, 2021 - June 30, 2022
Flexible capital	1,670,588	-	Annual	December 31, 2022
Flexible capital	13,712,957	-	Quarterly	September 30, 2021 - December 31, 2021
Flexible capital	<u>9,512,614</u>	<u>-</u>	Monthly	September 30, 2021
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 47,658,509</u></b>	<b><u>\$ 5,644,298</u></b>		

Alternative investments within the portfolio are comprised of the following at July 31, 2020:

<u>Investment Type</u>	<u>Amount</u>	<u>Uncalled Commitments</u>	<u>Redemption Period</u>	<u>Liquidity</u>
Private funds	\$ 8,788,720	\$ 4,520,414	None	End of partnership
Private funds	2,665,563	-	Annual	June 30, 2021
Flexible capital	6,385,481	-	18 months	September 30, 2020 - December 31, 2021
Flexible capital	1,375,442	-	Annual	December 31, 2020
Flexible capital	10,615,752	-	Quarterly	September 30, 2020 - December 31, 2020
Flexible capital	<u>6,435,092</u>	<u>-</u>	Monthly	September 30, 2020
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 36,266,050</u></b>	<b><u>\$ 4,520,414</u></b>		

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

## THE PHILLIPS COLLECTION

### NOTES TO FINANCIAL STATEMENTS JULY 31, 2021 AND 2020

#### 17. FAIR VALUE MEASUREMENT (Continued)

**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 eighteen months, that may limit the Collection's ability to liquidate them in a short period of time.

#### Level 3 Financial Assets

The following table provides a summary of changes in fair value of the Collection's financial assets for the year ended July 31, 2021:

Transfer in	\$ 8,784,074
Capital contributions	3,489,889
Distributions	(2,817,309)
Unrealized and realized gains	<u>3,414,980</u>
<b>BALANCE AS OF JULY 31, 2021</b>	<b><u>\$ 12,871,634</u></b>

#### 18. ENDOWMENT

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

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

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

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

**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**18. ENDOWMENT (Continued)**

Endowment net asset composition by type of fund as of July 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 6,150,000	\$ -	\$ 6,150,000
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	60,265,718	60,265,718
Accumulated investment earnings	<u>1,601,307</u>	<u>17,697,156</u>	<u>19,298,463</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 7,751,307</u></b>	<b><u>\$ 77,962,874</u></b>	<b><u>\$ 85,714,181</u></b>

Changes in endowment net assets for the year ended July 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,150,000	\$ 57,931,984	\$ 64,081,984
Art acquisitions	-	(129,583)	(129,583)
Investment return, net	1,743,900	17,468,894	19,212,794
Contributions	-	4,466,106	4,466,106
Appropriation of endowment assets for expenditure	<u>(142,593)</u>	<u>(1,774,527)</u>	<u>(1,917,120)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 7,751,307</u></b>	<b><u>\$ 77,962,874</u></b>	<b><u>\$ 85,714,181</u></b>

Endowment net asset composition by type of fund as of July 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 6,150,000	\$ -	\$ 6,150,000
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	55,929,195	55,929,195
Accumulated investment earnings	<u>-</u>	<u>2,002,789</u>	<u>2,002,789</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 6,150,000</u></b>	<b><u>\$ 57,931,984</u></b>	<b><u>\$ 64,081,984</u></b>



**THE PHILLIPS COLLECTION**

**NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020**

**18. ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended of July 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,150,000	\$ 57,835,176	\$ 63,985,176
Art acquisitions	-	(162,411)	(162,411)
Investment return, net	-	3,099,599	3,099,599
Contributions	-	327,524	327,524
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(3,167,904)</u>	<u>(3,167,904)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 6,150,000</u></b>	<b><u>\$ 57,931,984</u></b>	<b><u>\$ 64,081,984</u></b>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Collection to retain. As of July 31, 2021 and 2020, there were no deficiencies of this nature that are reported in net assets without donor restrictions.

Return Objectives and Risk Parameters -

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

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

Strategies Employed for Achieving Objectives -

To achieve its investment objective, the endowment assets will be allocated among several asset classes with a bias toward equity and equity-like investments due to their higher long-term return expectations. Other asset classes have and may be added to the portfolio to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set. The portfolio will be diversified both by and within asset classes. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total portfolio. As a result, the risk level associated with the portfolio investment is reduced.

THE PHILLIPS COLLECTION

NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2021 AND 2020

18. **ENDOWMENT (Continued)**

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

The Collection's annual endowment draw for operations was previously calculated as 5% of the average market value of the prior 11 quarters of the invested assets. Beginning in FY17, the Board of Trustees voted to reduce this draw percentage from 5% to 4.5% over three years, with a subsequent additional one year deferment, in anticipation of more modest investment returns going forward.

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

19. **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.

Exhibition expenses for the years ended July 31, 2021 and 2020 are reported in the Statements of Functional Expenses as follows:

	<u>2021</u>	<u>2020</u>
Personnel	\$ 2,028	\$ 5,205
Contractual services	257,394	79,089
Other facility costs	138,222	112,087
Administrative expenses*	112,317	433,397
Printing and publications	32,503	133,304
Information technology expenses	4,534	-
Fundraising activities and events	11,752	52,619
Marketing and advertising	<u>79,880</u>	<u>97,357</u>
<b>TOTAL EXHIBITION EXPENSES</b>	<b><u>\$ 638,630</u></b>	<b><u>\$ 913,058</u></b>

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

20. **SUBSEQUENT EVENTS**

In preparing these financial statements, the Collection has evaluated events and transactions for potential recognition or disclosure through November 11, 2021, the date the financial statements were issued.