

**THE STUDIO MUSEUM
IN HARLEM
AND SUBSIDIARY**

**Consolidated Financial Statements
for the year ended
June 30, 2019
(with summarized comparative
information for 2018)**

Independent Auditor's Report

To the Board of Trustees
The Studio Museum in Harlem

We have audited the accompanying consolidated financial statements of The Studio Museum in Harlem (the "Museum") and its wholly owned subsidiary, the SMH Support Corp. (the "Corp.") which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph on the previous page present fairly, in all material respects, the financial position of The Studio Museum in Harlem and SMH Support Corp. in Harlem as of June 30, 2019 and the results of their activities and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Museum's 2018 financial statements, and in our report dated March 22, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Condon O'Meara McGinty + Donnelly LLP

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Consolidated Statement of Financial Position
June 30, 2019
(With Summarized Comparative Information as of June 30, 2018)**

Assets				
	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Current assets				
Cash and cash equivalents	\$ 7,959,845	\$ -	\$ 7,959,845	\$ 1,321,923
Accounts receivable	6,019	-	6,019	-
Current portion of contributions receivable	500,002	-	500,002	1,102,600
Leverage loan interest receivable	-	18,498	18,498	-
Investments, at fair value	-	16,413,314	16,413,314	16,373,500
Museum store inventory	77,883	-	77,883	77,883
Prepaid and other insurance	266,579	-	266,579	435,933
Due (to) from	400,334	(400,334)	-	-
Total current assets	<u>9,210,662</u>	<u>16,031,478</u>	<u>25,242,140</u>	<u>19,311,839</u>
 Leverage loan receivable	 -	 6,702,733	 6,702,733	 -
Contributions receivable, net	 -	 636,781	 636,781	 5,484,908
Assets designated for facility plan				
Cash and cash equivalents	-	35,619,533	35,619,533	33,503,221
Investments at fair value	-	2,704,460	2,704,460	222,956
Contributions receivable, net	-	27,349,244	27,349,244	29,083,016
Total assets designated for facility plan	 -	 65,673,237	 65,673,237	 62,809,193
 Property and equipment, at cost, net	 23,082,542	 -	 23,082,542	 16,226,256
Total assets	 <u>\$ 32,293,204</u>	 <u>\$ 89,044,229</u>	 <u>\$ 121,337,433</u>	 <u>\$ 103,832,196</u>
 Liabilities and Net Assets				
 Current liabilities				
Accounts payable				
and accrued expenses	\$ 670,770	\$ -	\$ 670,770	\$ 988,449
Contracts payable	<u>2,127,153</u>	<u>-</u>	<u>2,127,153</u>	<u>435,146</u>
Total current liabilities	2,797,923	-	2,797,923	1,423,595
 Long-term debt, net	 8,013,671	 -	 8,013,671	 -
Total liabilities	<u>10,811,594</u>	<u>-</u>	<u>10,811,594</u>	<u>1,423,595</u>
 Net assets				
Without donor restrictions	21,481,610	-	21,481,610	15,777,503
With donor restrictions	-	68,572,227	68,572,227	66,307,881
Perpetual/time restricted	-	20,472,002	20,472,002	20,323,217
Total net assets	<u>21,481,610</u>	<u>89,044,229</u>	<u>110,525,839</u>	<u>102,408,601</u>
Total liabilities and net assets	 <u>\$ 32,293,204</u>	 <u>\$ 89,044,229</u>	 <u>\$ 121,337,433</u>	 <u>\$ 103,832,196</u>

See notes to consolidated financial statements.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Consolidated Statement of Activities
For year ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)**

	<u>2019</u>			<u>2018</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
Support and revenue				
Support				
City of NY Dept. of Cultural Affairs	\$ 944,440	\$ -	\$ 944,440	\$ 1,062,111
Other Government grants	-	-	-	141,500
Contributions	<u>2,703,231</u>	<u>12,863,564</u>	<u>15,566,795</u>	<u>58,125,707</u>
Total support	<u>3,647,671</u>	<u>12,863,564</u>	<u>16,511,235</u>	<u>59,329,318</u>
Revenue				
Fundraising events	3,899,903	-	3,899,903	2,728,678
Membership fees	89,984	-	89,984	172,456
Rental	-	-	-	115,092
Museum sales	44,403	-	44,403	218,230
Investment return, net	187	742,328	742,515	290,207
Admission fees and other	<u>46,196</u>	<u>-</u>	<u>46,196</u>	<u>95,690</u>
Total revenue	<u>4,080,673</u>	<u>742,328</u>	<u>4,823,001</u>	<u>3,620,353</u>
Sub-total	<u>7,728,344</u>	<u>13,605,892</u>	<u>21,334,236</u>	<u>62,949,671</u>
Net assets released from restrictions	<u>11,192,761</u>	<u>(11,192,761)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>18,921,105</u>	<u>2,413,131</u>	<u>21,334,236</u>	<u>62,949,671</u>
Expenses				
Program services				
Curatorial	1,324,881	-	1,324,881	2,043,080
Exhibitions	1,736,908	-	1,736,908	2,133,877
Education and public programs	<u>2,297,563</u>	<u>-</u>	<u>2,297,563</u>	<u>2,730,460</u>
Total program services	<u>5,359,352</u>	<u>-</u>	<u>5,359,352</u>	<u>6,907,417</u>
Supporting activities				
Management and general	469,000	-	469,000	1,337,295
Development	5,281,554	-	5,281,554	1,676,965
Building operations	<u>427,510</u>	<u>-</u>	<u>427,510</u>	<u>316,568</u>
Total supporting activities	<u>6,178,064</u>	<u>-</u>	<u>6,178,064</u>	<u>3,330,828</u>
Total expenses	<u>11,537,416</u>	<u>-</u>	<u>11,537,416</u>	<u>10,238,245</u>
Increase in net assets				
before loss on disposal of assets	7,383,689	2,413,131	9,796,820	52,711,426
Loss on disposal of assets	<u>(1,679,582)</u>	<u>-</u>	<u>(1,679,582)</u>	<u>-</u>
Increase in net assets	<u>5,704,107</u>	<u>2,413,131</u>	<u>8,117,238</u>	<u>52,711,426</u>
Net assets, beginning of year	<u>15,777,503</u>	<u>86,631,098</u>	<u>102,408,601</u>	<u>49,697,175</u>
Net assets, end of year	<u>\$21,481,610</u>	<u>\$89,044,229</u>	<u>\$110,525,839</u>	<u>\$102,408,601</u>

See notes to consolidated financial statements.

Statement of Functional Expenses
For year ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)

See notes to consolidated Financial Statements.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

Consolidated Statement of Cash Flows

	Year Ended June 30	
	2019	2018
Cash flows from operating activities		
Increase in net assets	\$ 8,117,238	\$ 52,711,426
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	95,621	281,319
Net realized and unrealized (gain) on investments	(366,404)	(157,910)
Non-cash contributions of stock	(269,151)	(1,693,715)
Proceeds from sale of donated stock	169,867	1,660,682
Loss on disposal of assets	1,679,582	-
Permanently restricted contributions	(148,785)	(13,235,120)
(Increase) decrease in assets		
Accounts receivable	(6,019)	-
Contributions receivable	7,184,497	(12,840,361)
Leverage loan interest receivable	(18,498)	-
Museum store inventory	-	(9,257)
Prepaid expenses and other insurance	169,354	(182,280)
(Decrease) in liabilities		
Accounts payable and accrued expenses	(317,679)	(242,206)
Net cash provided by operating activities	<u>16,289,623</u>	<u>26,292,578</u>
Cash flows from investing activities		
Proceeds from sales of investments	5,129,699	1,452,692
Purchases of investments	(14,369,552)	(2,979,970)
Net change in money market funds	7,184,223	(7,464,825)
Additions to property and equipment	(8,602,065)	(5,289,507)
Change in contracts payable	1,692,007	435,146
Leverage loan receivable	(6,702,733)	-
Net cash (used in) investing activities	<u>(15,668,421)</u>	<u>(13,846,464)</u>
Cash flows from financing activities		
Repayment of line of credit term note	-	(1,069,750)
Proceeds from building loan	193,567	-
Proceeds from notes payable	9,800,000	-
Loan closing costs	(2,009,320)	-
Permanently restricted contributions	148,785	13,235,120
Net cash provided by financing activities	<u>8,133,032</u>	<u>12,165,370</u>
Net increase in cash and cash equivalents	8,754,234	24,611,484
Cash and cash equivalents, beginning of year	<u>34,825,144</u>	<u>10,213,660</u>
Cash and cash equivalents, end of year	<u>\$ 43,579,378</u>	<u>\$ 34,825,144</u>
Consist of:		
Without donor restrictions	\$ 7,959,845	\$ 1,321,923
With donor restrictions	35,619,533	33,503,221
Total	<u>\$ 43,579,378</u>	<u>\$ 34,825,144</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ 28,271</u>	<u>\$ 32,571</u>

See notes to consolidated financial statements.

THE STUDIO MUSEUM IN HARLEM AND SUBSIDIARY

Notes to Consolidated Financial Statements June 30, 2019

Note 1 – Nature of organization

The accompanying financial statements reflect the consolidated operations of The Studio Museum in Harlem (the “Museum”) and the SMH Support Corp. (the “Support Corp”) an affiliate controlled by the Museum. The Museum and the Support Corp. have interrelated directors/officers. All intercompany accounts and transactions have been eliminated in consolidation.

The Museum is the nexus for black artists locally, nationally, and internationally and for work that has been inspired and influenced by black culture. It is a site for the dynamic exchange of ideas about art and society and for 50 years the Museum has been at the Vanguard of arts and culture.

Since opening in a rented loft at Fifth Avenue and 125th Street in 1968, the Museum has earned recognition for its catalytic role in promoting the works of artists of African descent. The Museum’s Curatorial *Artists-In-Residence* program has supported over 90 graduates who have gone on to establish highly regarded careers. A wide variety of *Education and Public Programs* have brought the African American experience alive for the public by means of lectures, dialogues, panel discussions, and performances, as well as interpretive programs both on-site and off-site for students and teachers. The *Exhibitions* program has also expanded the scope of art historical literature through the production of scholarly catalogues, brochures and pamphlets.

In 1979, the New York Bank for Savings donated a 60,000 square foot facility at 144 West 125th Street to The Studio Museum in Harlem. Renovated and opened in 1982, the Museum currently comprised of three floors of gallery space, workshop and studio spaces, library and archival space, art storage, an outdoor court and the Museum Store. After a major expansion and renovation of the 125th Street facility, completed in 2008, the Museum now includes a new glass façade and entry court, a 100-seat auditorium, an educational workshop space, expanded cloakroom and 3,000 square feet of additional gallery space for the Museum permanent collection.

The Museum is currently undertaking a capital campaign to design and build a new state-of-the-art facility for its current location.

The Museum's *Permanent Collection*, another important component of the Curatorial department includes over 1,600 paintings, sculptures, watercolors, drawings, pastels, prints, photographs, mixed media works, and installations. These works have been acquired through donation and purchase, and in 2001, the Museum inaugurated an Acquisitions Committee, which, donates funds for purchases to the collection. Featured in the *Collection* are work by artists such as Terry Adkins, Romare Bearden, Robert Colescott, Melvin Edwards, Richard Hunt, Lois Mailou Jones, Jacob Lawrence, Norman Lewis, Betye Saar, Nari Ward, and Hale Woodruff. The Museum is also the custodian of an extensive archive of the work of photographer James VanDerZee, the quintessential chronicler of the Harlem community from 1906 to 1983. Building on the existing *Collection* – which was inaugurated in 1977 with an acquisition policy put in place in 1979 – the Museum embarked on an initiative to expand its holdings with the opening of expanded gallery space in 2008.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 1 – Nature of organization (continued)

The Museum Store is a unique education resource featuring catalogues, logo items, cards and other products published by the Museum along with a diverse selection of books on the art and culture of African America and the African Diaspora and related crafts, jewelry, videos and compact discs that relate to the core mission of the Museum.

The Support Corp. is a non-for-profit 501(c)(3) organization that was incorporated in New York on July 24, 2018 and is organized and will be operated at all times exclusively for the benefit of the Museum.

The Support Corp. was created to separate certain considerations from the Museum's general operations, including isolating certain real estate activities and liabilities from the Museum's overall charitable activities and assets.

The Support Corp.'s only currently contemplated activities are to (i) lease property in New York, New York, currently leased by the Museum for the capital project (the "Project"), (ii) borrow low-interest rate funds, (iii) contract to rehabilitate and expand facilities at the Project, and (iv) lease the Project to the Museum to operate as The Studio Museum in Harlem.

The Support Corp.'s sole member is the Museum and the Museum has sole authority to appoint a majority of the Support Corp.'s Board of Directors, with the minority elected by the appointed Directors. The minority directors must be Trustees, Directors, Officers or Employees of the Museum.

Note 2 – Summary of significant accounting policies

Not-for-Profit Financial Statement Presentation

During the 2019 fiscal year, the Museum and Support Corp. adopted Accounting Standards Update ("ASU") No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows.

Net assets

The Museum's and Support Corp.'s net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as net assets without donor restrictions and net asset with donor restrictions.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (continued)

Net assets (continued)

Without donor restrictions – These net assets are not subject to donor-imposed restrictions and amounts can be spent at the discretion of the Museum and the Support Corp.

With donor restrictions

Net assets with temporary donor restrictions

- Net assets with temporary donor restrictions consist of investment return and contributions with donor-imposed stipulations that may or will be met either by actions of the Museum/Support Corp. and/or the passage of time.

Net assets with perpetual donor restrictions

- The Museum also has net assets with donor restrictions that consist of contributions that are restricted by the donor in that the principal must remain in perpetuity but that the investment return earned on such contributions may be spent in accordance with the donor's terms and are classified as either with temporary or without donor restrictions.

Contributions

The Museum reports contributions as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a designated restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted contributions for items relating to property and equipment additions are being released from restrictions when the expenditures have been incurred. Temporarily restricted contributions are reported as an increase in net assets without donor restrictions if the restrictions are satisfied within the same fiscal year the contributions are received. Bequests and wills are recorded as revenue when a legally binding obligation is received and when a fair value can reasonably be determined.

Donated services and in-kind support

Organizations are required to recognize contributions of services if they create or enhance non-financial assets, or require specialized skills, are provided by individuals possessing those skills and typically would have been purchased if not provided in-kind. Board members and other individuals volunteer their time and perform a variety of tasks that assist the Museum. These services do not meet the criteria to be recorded and have not been included in the accompanying consolidated financial statements.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (continued)

Donated services and in-kind support (continued)

During the 2019 and 2018 fiscal years, the Museum recorded donated utilities totaling \$100,765 and \$309,286, respectively, in connection with space utilized primarily for the various programs of the Museum. These amounts are included in the support line item under the City of New York Department of Cultural Affairs on the consolidated statement of activities and the corresponding expense is included in the occupancy and utility line item on the consolidated statement of functional expenses.

Cash equivalents

The Museum and Support Corp. consider highly liquid investments with maturities of three months or less from the date of acquisition to be cash equivalents.

Investments

The Museum reports investments at fair value in the consolidated statement of financial position. The fair value of the investments is based on publicly quoted prices. Interest, dividends, realized and unrealized gains and losses are included in the consolidated statement of activities as investment returns in net assets with donor restrictions.

Allowance for doubtful accounts

The Museum does not have an allowance for doubtful accounts for any potentially uncollectible contributions receivable. Such estimate is based on management's experience, the aging of the receivable, subsequent receipts and current economic conditions.

Inventory

The Museum's store inventory is stated at cost.

Property and equipment

Property and equipment are recorded at cost. The Museum capitalizes, as property and equipment, expenditures for assets over a nominal amount and a useful life of greater than one year. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 30 years.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (continued)

Property and equipment (continued)

Effective with the 2004 fiscal year, the City of New York issued a directive that all City-funded capital expenditures and improvements are the property of the City, and are treated as fixed assets in the City's financial records for accounting purposes. In order to represent the City's ownership of the assets, and to avoid duplicative accounting, the City has directed the Cultural Institutions, including the Museum, not to include these assets in an organization's audited financial statements.

During the 2019 and 2018 fiscal years, the City of New York has not made improvements to the Museum's current facilities. From the 1998 fiscal year through the 2014 fiscal year, the City has made improvements totaling \$9,899,605 to the Museum's completed facilities. These assets are owned by The City of New York. The capital expenditures amounts are preliminary and are subject to change by the City Controller's office.

The City of New York's investment of capital expenditures obligated the Museum to operate the facility during the respective term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational or artistic uses and/or related purposes approved by the City of New York.

As a result of the Museum's capital campaign (see note 13), the Museum's current facility has been vacated and dismantled.

Museum collections and exhibits

The Museum's collections are made up of artifacts of historical significance and art objects that are held for educational, exhibit, and curatorial purposes. Proceeds from the sales of the collection are used to acquire other items for the collection. Contributions for the purchase of items for the collections and exhibits are classified as net assets with donor restrictions until acquisitions are made. The Museum's collections and exhibits are not capitalized in the consolidated statement of financial position. Purchases of items are expensed in the year in which the items are acquired. The cost of these items purchased is reported as a separate program expense.

Contributed collection items are not reflected in the consolidated financial statements. During the 2018 fiscal year, 40 artists donated the net proceeds from sale of their works of art to the Museum totaling \$19,073,272. The net proceeds from the sale was recorded as net assets with donor restrictions in the consolidated statement of activities to be used for the Museum's expansion project and capital campaign.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (continued)

Functional expenses

The costs of providing the various programs and other supporting activities have been summarized on a functional basis in the accompanying consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated between the program services and supporting activities benefited. Expenses attributable to more than one functional category are allocated based on time and effort.

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Deferred loan closing costs

The deferred loan closing costs were incurred in connection with the notes payable (see note 9) and are being amortized over the period of the notes. The unamortized portion is netted with the related long-term debt on the consolidated statement of financial position.

Concentrations of credit risk

The Museum's and the Support Corp.'s financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments, contributions and a loan receivable. The Museum and the Support Corp. places its cash and cash equivalents with what it believes to be quality financial institutions. Investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the uncertainty related to the foregoing risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the consolidated statement of financial position at June 30, 2019. The Museum routinely assesses the financial strength of its cash, cash equivalents and investment portfolio. Contributions receivable consist of amounts due from individuals, foundations and corporations. The Museum's management monitors the collectability of the contribution's receivable on an ongoing basis. The loan receivable is due from an LLC created in connection with a new market tax credit program agreement. The Museum believes no significant risk of loss exists with respect to its cash, cash equivalents, investments and receivables.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (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 amounts reported in the financial statements. Actual results could differ from these estimates.

Fair value measurements

Fair value refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Museum's investments have been classified in the highest level of hierarchy (Level 1). These quoted prices in active markets for identical assets.

Reclassification

Certain items in the 2018 financial statements have been reclassified for comparative purposes only.

Risks and uncertainty

On March 13, 2020, President Trump declared a national emergency under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, due to extraordinary circumstances resulting from the coronavirus. The Museum/Support Corp. has experienced volatile market conditions relating to the investment portfolio. The extent to which the coronavirus may impact the Museum/Support Corp.'s operations and programs will depend on future developments, which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the governmental actions required to contain the coronavirus or treat its impact, and related factors. In addition, the impact of the coronavirus has delayed the construction of the new facility plan. As of the date of this report, the economic impact of these circumstances is not readily determinable.

Subsequent events

During April 2020, the Museum applied for and was approved an approximate \$1,171,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at .98% per annum, but payments are not required to begin for six months after the funding of the loan (October 6, 2020). The loan matures on April 7, 2022, when all unpaid principal balance outstanding plus accrued and unpaid interest will be due and payable. The Museum is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 2 – Summary of significant accounting policies (continued)

Subsequent events (continued)

The Museum and Support Corp. have evaluated events and transactions for potential recognition or disclosure through September 24, 2020, which is the date the consolidated financial statements were available to be issued.

Note 3 – Financial assets and liquidity resources

The Museum's and Support Corp.'s working capital and cash flows have seasonal variations during the year attributable to cash receipts from contributions, fundraising events and other revenue items.

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets	
Cash and cash equivalents	\$ 43,579,378
Current receivables	27,855,265
Investments, at fair value	<u>19,117,774</u>
Total financial assets	90,552,417
Less: Net assets with donor restrictions	20,472,002
Reserves	<u>8,333,100</u>
Financial assets available for general expenditures	<u>\$ 61,747,315</u>

As a condition of a building loan agreement, (see note 9), the Museum has a reserve totaling \$2,450,000 to be used for the payment of interest, mortgage recording tax and/or other purposes as determined by the lender and defined in the loan documents. In addition, pursuant to a city grant agreement, the Museum set up an initial reserve in the amount of \$5,883,100 for certain construction costs of a new museum, to be reimbursed by the City of New York.

Note 4 – Contributions receivable

The estate of a donor was granted an order extending the duration of the trust for another five years after February 18, 2010. The remaining balance is approximately \$315,000 and is reflected as contributions and grants receivable in net assets with donor restrictions on the consolidated statement of financial position.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 4 – Contributions receivable (continued)

Contributions receivable are unconditional promises to make donations to the Museum which consist of the following as of June 30, 2019 and June 30, 2018:

	<u>2019</u>	<u>2018</u>
Due within one year (2020)	\$17,955,989	\$19,214,921
Due in one to five years (2021-2025)	11,482,403	18,031,530
Due in more than five years (2026-2029)	<u>70,000</u>	<u>-</u>
Sub-total	29,508,392	37,246,451
Less: amount to reduce contributions receivable due in more than one year to their present value (discount rate – 3.25%)	<u>1,022,365</u>	<u>1,575,929</u>
Total	<u>\$28,486,027</u>	<u>\$35,670,522</u>

Note 5 – Leverage loan receivable

During December 2018, in connection with the facility plan outlined in Note 13, the Museum entered into a leverage loan agreement (“Loan”) with Studio Museum in Harlem NMTC Investment Fund, LLC (the “Borrower”). The Museum loaned the Borrower \$6,702,733 which matures on December 27, 2048 (the “Maturity Date”), when all outstanding principal and accrued but unpaid interest shall be due and payable. The Loan is also evidenced by a promissory note. The interest rate of the Loan is 1.1% per annum. Interest only payments are due quarterly (January, April, July and October) commencing on April 10, 2019 and ending on October 10, 2025. On December 27, 2025 the Borrower shall make an interest only payment for the period accrued from October 10, 2025 through December 27, 2025. On April 10, 2026, the Borrower shall make a one-time payment of principal and interest accrued on the Loan from December 28, 2025 through March 31, 2026. Thereafter, until and including the Maturity Date, quarterly installments of principal and interest in the amount of \$93,488 each based upon a 156-month amortization schedule shall be due and payable. The Loan is secured by a continuing security interest in all the Borrower’s rights, title and interest, as defined in the Loan agreement.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 6 – Investments

The following is a summary of the Museum's investments held and the Level under the fair value hierarchy as of June 30, 2019 and June 30, 2018:

	2019			2018		
	Level	Cost	Fair Value	Level	Cost	Fair Value
Money market funds	(1)	\$ 691,885	\$ 691,885	(1)	\$ 7,876,108	\$ 7,876,108
Government obligations	(1)	3,594,451	3,708,882	(1)	840,926	808,360
Corporate obligations	(1)	3,373,177	3,459,317	(1)	861,510	824,916
Mortgage backed	(1)	173,761	180,580		-	-
Equities						
Domestic	(1)	1,017,249	1,075,155		-	-
International	(1)	359,895	387,307		-	-
Mutual funds						
Equities						
Domestic	(1)	4,182,607	4,585,460	(1)	2,002,832	2,453,792
International	(1)	1,981,865	2,193,064	(1)	974,361	1,086,044
Fixed income						
Domestic	(1)	792,010	775,179	(1)	2,128,656	2,106,385
International bond	(1)	1,269,261	1,302,815	(1)	762,851	754,325
Real assets funds	(1)	518,115	514,858	(1)	682,324	686,526
Real estate inv. trusts	(1)	236,125	243,272	(1)	-	-
Total		<u>\$18,190,401</u>	<u>\$19,117,774</u>		<u>\$16,129,568</u>	<u>\$16,596,456</u>
Unrealized gain			<u>\$ 927,373</u>			<u>\$ 466,888</u>
Change in unrealized value of investments			<u>\$ 460,485</u>			<u>\$ 154,924</u>
Investments consist of:						
Operations			\$16,413,314			\$16,373,500
Designated for facility plan			<u>2,704,460</u>			<u>222,956</u>
Total			<u>\$19,117,774</u>			<u>\$16,596,456</u>

The summary of the investment return for the years ended June 30, 2019 and June 30, 2018 are as follows:

	2019	2018
Interest and dividends	\$ 452,195	\$ 186,512
Realized gain (loss) on the sale of investments	(94,081)	2,986
Unrealized gain on investment	460,485	154,924
Investment fees	<u>(76,084)</u>	<u>(54,215)</u>
Total investment return	<u>\$ 742,515</u>	<u>\$ 290,207</u>

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 7 – Property and equipment

As of June 30, 2019 and June 30, 2018, property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ -	\$ 200,000
Building and leasehold improvements	227,056	5,841,050
Sculpture Garden	-	1,395,018
Furniture, fixtures and equipment	1,257,510	1,132,166
Construction in progress (Support Corp.)	1,965,125	-
Construction in progress	<u>20,720,474</u>	<u>14,415,759</u>
Sub-total	24,170,165	22,983,993
Less: accumulated depreciation and amortization	<u>1,087,623</u>	<u>6,757,737</u>
Net property and equipment	<u>\$ 23,082,542</u>	<u>\$ 16,226,256</u>

During the 2019 fiscal year, in connection with a new facility plan, property and equipment with an original cost of \$7,415,893 and an accumulated depreciation of \$5,736,311 were disposed of, resulting in a loss of \$1,679,582.

Note 8 – Lines of credit

The Museum had available a \$1,100,000 revolving line of credit note with a bank that expired on March 15, 2020. Borrowings under this line of credit bear interest at LIBOR plus 1.75% per annum. The line of credit was secured by a first lien security interest of an investment account of the Museum. As of June 30, 2019 and June 30, 2018, no amounts were outstanding under this line of credit.

Note 9 – Long-term debt

Building loan

During December 2018, the Museum entered into a \$58,831,000 Building Loan Agreement (the “Loan”) with a financial institution to obtain bridge financing to fund the Museum’s new building and new facility plan, subject to terms and conditions as outlined in the Loan. The Loan will bridge: (i) funds from the New York City Council, the Mayor’s office and the Department of Cultural Affairs (“City Funds”) and (ii) funds from private donor pledges (“Donor Funds”). The Museum is entitled to reimbursement for Loan advances from the City Funds’ reimbursable costs, as defined in the City Grant Agreement. The Loan is set to mature three years from the date of the Loan. As of June 30, 2019, the Museum had \$193,567 outstanding under this Loan.

Throughout the term of the Loan, the outstanding principal amount shall bear interest at adjusted LIBOR plus 300 basis points or at the bank’s prime rate. The Loan has an unused fee, payable quarterly, equal to .15% per annum of the difference between (i) the maximum amount outstanding and (ii) the actual average outstanding principal balance of the Loan during the quarter ended immediately prior to the payment date, as outlined in the Loan documents. Such fee is recorded as interest expense in the consolidated financial statements.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 9 – Long-term debt (continued)

Building loan (continued)

The Loan requires certain reserve balances totaling \$8,333,100, as defined in the Loan documents (see also note 2). Any loan closing costs were paid from the Museum's operating reserve and were not deducted from the Loan proceeds, in accordance with the Loan Agreement.

Note payable 1

On December 27, 2018, the Support Corp. obtained a 30-year \$6,702,733 note ("Note 1") maturing December 27, 2048. The proceeds of Note 1 are being used to partially fund a major capital project in which the Support Corp. along with the Museum intend to replace the existing Studio Museum in Harlem's building and outdoor sculpture court. Note 1 requires quarterly interest payments at the rate of 1% per annum through December 27, 2025. On April 1, 2026, the Support Corp. is required to make a one-time payment in the amount of \$81,646 of principal and interest accrued on Note 1 for the period beginning December 28, 2025 and ending March 31, 2026. Commencing on June 1, 2026, quarterly installments of principal and interest shall be payable each quarter such that the combined amount of interest and principal payable for each such quarter shall be equal to \$81,646, until the entire unpaid principal balance is fully paid.

Note payable 2

On December 27, 2018, the Support Corp. obtained a 30-year \$3,097,267 note ("Note 2") maturing December 27, 2048. The proceeds of Note 2 are being used to partially fund the capital project mentioned in the previous paragraph. Note 2 requires quarterly interest payments at the rate of 1% per annum through December 27, 2025. On April 1, 2026, the Support Corp. is required to make a one-time payment in the amount of \$37,728 of principal and interest accrued on Note 2 for the period beginning December 28, 2025 and ending March 31, 2026. Commencing on June 1, 2026, quarterly installments of principal and interest shall be payable each quarter such that the combined amount of interest and principal payable for each such quarter shall be equal to \$37,728 until the entire unpaid principal balance is fully paid.

The following is a summary of the required minimum annual principal payments on the notes as of June 30, 2019:

<u>Fiscal Year</u>	<u>Building Loan</u>	<u>Note 1</u>	<u>Note 2</u>	<u>Total</u>
2020	\$ -	\$ -	\$ -	\$ -
2021 – 2024	193,567	-	-	193,567
2025 and thereafter	-	6,702,733	3,097,267	9,800,000
Sub-total	193,567	6,702,733	3,097,267	9,993,567
Less: current portion	-	-	-	-
Long-term portion	193,567	6,702,733	3,097,267	9,993,567
Less: unamortized loan closing costs	(1,442,996)	(367,214)	(169,686)	(1,979,896)
Net long-term portion	\$ (1,249,429)	\$ 6,335,519	\$ 2,927,581	\$ 8,013,671

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 10 – Pension and retirement plans

The Museum participates in the employee Cultural Institutions Retirement System (“CIRS”), which covers all eligible employees. CIRS is a multi-employer plan administered by the City of New York, and its actuarial present value of vested and non-vested accumulated plan benefits and net assets available for plan benefits are not determinable on an individual institution basis. CIRS sponsors three employee benefit plans: a 401(k) savings plan, a defined benefit pension plan, and a group life insurance plan. The Museum makes contributions to these plans on behalf of all eligible employees. In addition, employees are allowed to contribute to the 401(k) plan.

The City of New York directly pays the cost for eligible employees who are on City-funded payrolls and the Museum pays the cost for eligible employees that are on non-City-funded payrolls. The value of City-paid costs is reported as public support and an employee benefit expense.

Total benefit and administration costs for the years ended June 30, 2019 and June 30, 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Paid by the City of New York	\$ 45,004	\$ 76,757
Paid by the Museum	<u>397,989</u>	<u>334,201</u>
Total expense	<u>\$ 442,993</u>	<u>\$ 410,958</u>

The risk of participating in the multiemployer plan is different from a single-employer plan in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers and
- If the Museum chooses to stop participating in the multiemployer plan, the Museum may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 10 – Pension and retirement plans (continued)

The Museum's participation in these plans for the annual period ended June 30, 2019 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The next column lists the expiration dates of the collective-bargaining agreements to which the plans are subject. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for the plan's year-end at June 30, 2018 and June 30, 2017, respectively. The zone status is based on information that the Museum received from the plans and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Expiration Date of Collective Bargaining Agreement</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Pending Implemented</u>	<u>Status Surcharge Imposed</u>	<u>Contributions to Plan</u>	
			<u>Year Ended June 30</u>				<u>Year Ended June 30</u>	
			<u>2019</u>	<u>2018</u>			<u>2019</u>	<u>2018</u>
The Cultural Institution's Pension Plan	11-2001170 001	June 30, 2019	Green	Green	N/A	N/A	\$442,993	\$ 410,958

Note 11 – Lease agreements

Office space leases

In connection with the capital campaign, the Museum vacated the current premises and entered into various operating lease agreements and a permit for use of state-owned property.

During December 2016, the Museum entered a permit for use of state-owned property for office space at 163 West 125th Street, beginning on December 1, 2016 through November 30, 2019. The lease requires an annual permit fee of \$76,260 payable in monthly installments of \$6,355. Effective December 2019, the permit for use of state-owned property is continuing a month-to-month basis unless terminated by either party.

During October 2017, the Museum entered a lease for office space at 423 West 127th Street, beginning on January 1, 2018 through December 31, 2020. The lease requires annual base rent of \$158,850, increasing to \$175,132 in the third year of the lease. The Museum is also required to pay as additional rent, certain operational costs, as outlined in the lease. The Museum has a \$13,238 security deposit with the landlord. This deposit is recorded with prepaid and other insurance on the consolidated statement of financial position.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 11 – Lease agreements (continued)

Office space leases (continued)

During June 2018, the Museum entered another lease for office space at 310 Lenox Avenue, beginning on June 12, 2018 through June 12, 2021. The lease requires annual base rent of \$450,000, increasing to \$477,405 in the third year of the lease. The Museum has the option to renew the lease for a two-year period. The Museum is also required to pay as additional rent, certain operational costs, as outlined in the lease. The Museum has paid \$200,000 as a security deposit in connection with this lease. This deposit is recorded with prepaid and other insurance on the consolidated statement of financial position.

The total office space expense for the fiscal year ended June 30, 2019 was \$961,974 and it is recorded as occupancy and utilities in the consolidated statement of functional expenses.

The required minimum annual rent for office space as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>163 West 125th Street</u>	<u>423 West 127th Street</u>	<u>310 Lenox Avenue</u>	<u>Total</u>
2020	\$ 31,775	\$ 170,962	\$ 464,195	\$ 666,932
2021	<u>-</u>	<u>87,566</u>	<u>453,535</u>	<u>541,101</u>
Total	<u>\$ 31,775</u>	<u>\$ 258,528</u>	<u>\$ 917,730</u>	<u>\$ 1,208,033</u>

Storage spaces leases

During April 2015, the Museum entered into a storage lease agreement for some of its artwork. The lease, commenced on January 1, 2016 and expires December 31, 2025. The lease requires an annual minimum rent of \$336,000 in year 1 of the lease increasing to \$450,272 in the 10th year of the lease, as defined in the lease documents. Thereafter, it will continue on a month-to-month basis unless terminated by either party.

During May 2015, the Museum entered into a second storage lease agreement for some of its artwork that will expire May 2025. Thereafter, it will continue on a month-to-month basis unless terminated by either party. The lease requires an annual minimum rent of \$19,501.

The total storage space expense for the fiscal year ended June 30, 2019 was \$472,020 and it is recorded in art costs in the consolidated statement of functional expenses. The required minimum amount of rent payments as of June 30, 2019 are as follows:

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 11 – Lease agreements (continued)

Storage spaces leases (continued)

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 363,901
2021	381,121
2022	399,202
2023	418,187
2024	438,122
2025	457,427
2026	<u>225,136</u>
Total	<u>\$ 2,683,096</u>

Note 12 – Sub-Sublease agreement

On December 27, 2018, the Support Corp. (“Sub-Sublessor”) entered into a Sub-Sublease Agreement with the Museum (“Sub-Sublessee”) for certain real property (including tenant initial improvements) to be used by the Sub-Sublessee for operation of a museum (“Sub-Sublessee”).

Sub-Sublessor holds a sub-leasehold interest in that certain real property where a new museum is being built with the City of New York, pursuant to the certain Sublease dated the same date between Sub-Sublessor, as sublessee, and Sub-Sublessee, as sublessor (the “Sublease”), which Sublease is subject and subordinate to that certain Amended and Restated Agreement of Lease dated as of December 14, 2018, (the “Lease”) between Sub-Sublessee, as tenant, and the City of New York, as landlord (the “Landlord”).

Sub-Sublessor and Sub-Sublessee entered the Sublease in connection with Sub-Sublessor’s construction and financing of the Tenant Initial Improvements (as defined in the Lease), which, following completion, will result in a new museum building. Sub-Sublessee is responsible hereunder for operation of the Museum.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 12 – Sub-Sublease agreement (continued)

The term of this Sub-Sublease Agreement shall commence immediately upon substantial completion of tenant's initial improvements (effective date) and expire on August 31, 2039 unless terminated sooner or extended for an additional 25 years. Sub-Sublessee shall pay to Sub-Sublessor base rent commencing on the effective date and then quarterly thereafter, in advance, on the first day of each March, June, September and December, in an amount equal to one-fourth of the annual amounts per the rent schedule. The following is a summary of the future Sub-Sublease cash receipts.

<u>Fiscal year</u>	<u>Amount</u>
2020	\$ -
2021	52,000
2022	104,000
2023	104,000
2024	104,000
2025 and thereafter	<u>14,488,001</u>
Total	<u>\$ 14,852,001</u>

Note 13 – Commitments

Facility plan

The Museum had undertaken a Capital Campaign to design and build a new state-of-the-art 82,000 square feet certified LEED-Museum (the "Project") on the site of its current building and sculpture court, at 144 West 125th Street, consisting of City-owned Lots 9 and 11, which are leased to the Museum pursuant to a long-term lease dated December 14, 2018 with a term ending on August 31, 2039 subject to Museum's right to extend the term to August 31, 2064.

In connection with the Project, the Museum has various contracts with different entities at different stages of construction for softs/hard costs incurred, such as early design, probes, schematic designs, bid, negotiations, legal, permits, allocated staff time, architectural, engineering, consulting, construction manager and general contractors. The Museum's capital projects are a joint venture with the Support Corp. wherein the Support Corp. will be responsible for a portion of the total Capital Project costs and expenses. Work completed under these agreements through June 30, 2019, totaled approximately \$23,200,000 (\$1,965,000 Support Corp.'s share) and are recorded as construction in progress in the property and equipment accounts in the consolidated statement of financial position. As of June 30, 2019, work completed under the various contracts but remains to be paid were approximately \$2,127,000 (\$383,000 Support Corp.'s share) and are recorded as contracts payable on the consolidated statement of financial position.

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 13 – Commitments (continued)

Funding

The following is a summary of the various donations for the facility plan since 2012:

<u>Fiscal Year</u>	<u>Balance at beginning of fiscal year</u>	<u>Contributions*</u>	<u>Net Assets Released From Restrictions</u>	<u>Balance at end of fiscal year</u>
2012	\$ -	\$ 100,000	-	\$ 100,000
2013	100,000	2,071,865	(100,000)	2,071,865
2014	2,071,865	4,148,911	(310,646)	5,910,130
2015	5,910,130	1,308,678	(2,431,012)	4,787,796
2016	4,787,796	11,108,958	(5,343,900)	10,552,854
2017	10,552,854	22,979,267	(4,028,355)	29,503,766
2018	29,503,766	40,515,576	(7,210,149)	62,809,193
2019	62,809,193	<u>11,302,779</u>	<u>(8,438,735)</u>	65,673,237
Total		<u>\$ 93,536,034</u>	<u>\$ (27,862,797)</u>	

* Through the 2019 fiscal year, the Museum received permanently restricted contributions totaling \$7,750,000 towards the project.

In addition, as of the date of this report, the Museum has been named in the City of New York adopted budgets for an appropriated amount of approximately \$58,831,000 for the Museum's new building and new facility plan. Such appropriation is evidenced by certain cultural capital grant agreement between the City of New York, acting by and through NYC Department of Cultural Affairs (DCA), NYC Department of Design and Construction (DDC) and the Museum. This appropriation has not been recorded in these consolidated financial statements.

Note 14 – City transfers

At its June 19, 2018 meeting, the Museum Board of Trustees approved the conveyance of its land and building (Lot 9) to The City of New York (the "City") as a donation for no consideration, subject to a new long-term lease for use and occupancy by the Museum, as set forth in the non-binding Memorandum of Understanding (the "MOU") the Museum entered with the City in 2013. To facilitate the transaction, the Museum created an affiliate supporting organizations controlled by the Museum, SMH Support Corp., to hold title and create the Museum leasehold interest prior to the donation to the City. After the transfer, the City and the Museum amended and restated the existing City lease on Lot 11 to consolidate it with the new lease on Lot 9 and allowed for construction of the Project. The amended and restated lease would be for a nominal rent with a term ending on August 31, 2039 subject to Museum's right to extend the term to August 31, 2064. During the 2019 fiscal year, the amended and restated lease was approved by the City to proceed with the Project and allowed for the New Markets Tax Credit and bridge loan financing transactions described in Notes 9 and 15.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 15 – New market tax credit program agreement (“NMTC”)

During the 2018 fiscal year, the Museum entered into a preliminary term sheet for an NMTC agreement with a financial institution to incentivize the revitalization of the Museum’s surrounding communities. The Museum, also referred to as the Sponsor, secured \$10,000,000 in NMTC as defined in the term sheet. The property used to secure service financing is the new facility that is expected to be built at the Museum’s current site. During the 2019 fiscal year, the NMTC agreement was completed.

Note 16 – Related party transactions

For the fiscal years ended June 30, 2019 and June 30, 2018 in connection with the Museum’s facility plan, the Museum obtained legal services from a law firm where a member of the Board of Trustees is a partner at the law firm. The partner who is a member of the Board of Trustees contributes his time on a pro bono basis; and the rates charged by the law firm for other legal services are competitive rates with a further discount of 15-20% provided from those rates. During the 2019 and 2018 fiscal years, the total legal services provided to the Museum were approximately \$569,000 and \$243,000, respectively. In connection with the project, the Museum capitalized \$554,471 and \$209,281 of legal expenses during the 2019 and 2018 fiscal years, respectively. The indirect benefit, if any, to the Board Member is not determinable. The partner who is a member of the Board of Trustees has made multiple disclosures of this arrangement including verbally in meetings with the Facility Committee and Executive Committee members and to the Full Board in board meetings, as well as, in writing in his Annual Conflict of Interest Statement disclosure and the arrangement was approved by the Museum’s Board of Trustees.

Note 17 – Tax status

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, the Museum has been determined by the Internal Revenue Service (“IRS”) to be a publicly supported organization, and not a private foundation, within the meaning of Section 509(a)(1) and 170(b)(1)(A)(vi) of the Code. The Museum qualifies for the maximum charitable contribution deductions for donors as permitted by the Code.

The Support Corp. is also exempt from Federal income taxes under Section 501(c)(3) of the Code. In addition, the Corp. has been determined by the IRS to be a public supported charity and not a private foundation. The IRS has also specifically determined that the Corp. is a Type I Supporting Organization under section 509(a)(3) of the Code. A Type I Supporting Organization is operated, supervised or controlled by one or more publicly supported charities (i.e., the Museum). The Corp. qualifies for the maximum charitable contribution deduction for its donors as allowed by the Code.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 18 – Legal proceedings

The Museum is currently involved in legal proceedings arising in the ordinary course of business. The Museum believes it has a defense for the proceedings and is vigorously defending the actions. The Museum's insurance carrier is providing defense and indemnity for these proceedings and in the opinion of management of the Museum, the resolution of these matters will not have a materially adverse effect on the Museum's consolidated financial statements.

Note 19 – Endowment

The Museum's donor-restricted endowments consist of various individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Temporarily Restricted and Permanently Restricted (Endowment) Net Assets Composition by Type of Fund as of June 30, 2019:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$35,619,533	\$ -	\$35,619,533
Investments	1,840,899	17,276,875	19,117,774
Contributions receivable, net	24,790,898	3,195,127	27,986,025
Leverage loan receivable	6,702,733	-	6,702,733
Leverage loan interest receivable	18,498	-	18,498
Due to operations	(400,334)	-	(400,334)
Total	<u>\$ 68,572,227</u>	<u>\$ 20,472,002</u>	<u>\$ 89,044,229</u>

Changes in Temporarily Restricted and Permanently Restricted Net Assets for Donor Restricted and Endowment Return for the Year Ended June 30, 2019:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Donor Restricted</u>			
Net assets, beginning of year	\$ 66,307,881	\$ 20,323,217	\$ 86,631,098
Contributions	12,714,779	148,785	12,863,564
Net assets released from restrictions/reclassification	(11,192,761)	-	(11,192,761)
Sub-total	<u>67,829,899</u>	<u>20,472,002</u>	<u>88,301,901</u>
<u>Endowment Returns</u>			
Investment returns:			
Interest and dividends, net of fees	375,924	-	375,924
Realized (loss) on sale of investments	(94,081)	-	(94,081)
Unrealized gain on investments	460,485	-	460,485
Total investment returns	<u>742,328</u>	<u>-</u>	<u>742,328</u>
Net assets, end of year	<u>\$ 68,572,227</u>	<u>\$ 20,472,002</u>	<u>\$ 89,044,229</u>

**THE STUDIO MUSEUM IN HARLEM
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**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 19 – Endowment (continued)

During the 2018 fiscal year, management received a revised donor's intent letter to release its original permanently restricted contribution. As a result, the Museum reclassified \$750,000 from permanently restricted net assets to temporarily restricted net assets. There was no change to the total net assets.

Interpretation

The Museum follows the New York Prudent Management of Institutional Funds Act (NYPMIFA). The Museum's endowment consists of various funds established for specific purposes. Under NYPMIFA, the Museum is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. The Museum classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as unrestricted or temporarily restricted net assets based on donor stipulations.

The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) Where approximate and circumstances would otherwise warrant, alternatives to expenditures of the fund, giving due consideration to the effect that such alternatives may have on the Museum
- (8) The investment policies of the Museum

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 19 – Endowment (continued)

Permanently restricted net assets

Permanently restricted net assets as of June 30, 2019 include contributions specified by the donors for endowment as follows:

The Ford Foundation Contribution	\$ 1,000,920
Ford matching contributions	
Lewis B. Cullman	200,000
Raymond J. McGuire	117,000
Peter Norton	100,000
Johnnie L. Cochran, Jr.	40,580
Ronald L. Carter	25,000
Anne Ehrenkranz	25,000
Susan Fales-Hill	5,000
Barbara Schuster	1,000
Joseph H. Lewis III	500
Total Ford Foundation	1,515,000
Thompson Family Foundation	6,600,000
Anonymous (Capital)	5,000,000
Jacob and Gwendolyn Lawrence	2,000,000
Joyce Alexander Wein	1,125,000
Lauder Fund (Capital)	1,000,000
The Studio Museum Women's Fund (Capital)	1,000,000
Robert Rauschenberg Foundation (Capital)	750,000
National Endowment for the Humanities	650,000
The Andrea Frank Foundation	375,000
Hearst Foundation	200,000
Bloomberg L.P.	100,000
Con Edison	100,000
Lea K. Green Fund	85,365
Pepsico Foundation	10,000
Discount for future pledges	(38,363)
Total	<u>\$ 20,472,002</u>

Investment objectives

The investment strategy of the Museum endowment fund assets is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for these assets shall be: Long-term growth of capital – To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index. Income and growth – To achieve a balanced return of current income and modest growth of principal and Rate of return – To equal or exceed a return to be determined by the Finance Committee of the Board of Trustees based upon selected benchmarks and as outlined in the Museum's investment policy. To monitor and oversee the Museum's investments, the Board of Trustees selects qualified investment managers.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 19 – Endowment (continued)

Funds with deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration, also known as funds with deficiencies. As of June 30, 2019 and 2018, there were no funds with deficiencies.

Spending policy

Consistent with the overall investment goals, the following rules for distribution are set forward. The total annual distribution of spendable income from the endowment fund shall not exceed 5% nor be less than 3% of the average fair value of the endowment fund. The average fair value will be based on the average fair values of the endowment investment fund for the preceding 12 quarters. (For distribution purposes, the fair value of the endowment shall be based on the average values for the preceding 12 quarters ended June 30). The target annual distribution rate shall be 4.5% of the average fair value. The Museum's Finance Committee shall review the target annual distribution policy annually with any recommended changes submitted for approval to the Board of Trustees.

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 19 – Endowments (continued)

Temporarily restricted net assets

Temporarily restricted net assets activities for both the donor restricted and endowment returns for the year ended June 30, 2019 are as follows:

Temporarily restricted net assets –

	Purpose Restriction	Balance at June 30, 2018	Contributions	Investment Income, net	Net Assets Released from Restrictions/ Appropriated for Expenditures	Balance at June 30, 2019
donor restricted						
Bank of America	Curatorial	\$ 121,000	\$ -	-	\$ (121,000)	\$ -
CitiGroup	Curatorial	487,500	-	-	(137,500)	350,000
Henry Luce Foundation, Inc.	Archives	390,000	-	-	(176,396)	213,604
Institute of International Education	Curatorial	30,000	-	-	(30,000)	-
Joan Ganz Cooney & Holly Peterson Fund	Time Restrictions	305,000	-	-	(100,000)	205,000
Joy of Giving Something	AIR/Curatorial	100,002	-	-	(66,666)	33,336
William R. Kenan, Jr. Charitable Trust	“Interim”	100,000	-	-	(100,000)	-
Andrew W. Mellon Foundation (Curatorial)	Time Restrictions	700,000	-	-	(333,192)	366,808
Andrew W. Mellon Foundation (General)	Time Restrictions	1,632	-	-	(1,632)	-
New York State Council on the Arts	Time Restrictions	145,000	-	-	(72,500)	72,500
Rockefeller Philanthropy Advisors	Diversifying Art Museums	205,000	-	-	(100,000)	105,000
Target	Time Restrictions	140,000	-	-	(140,000)	-
Various donors	Facility Plan	62,809,193	11,302,779	-	(8,438,735)	65,673,237
Wein Prize Stiped	Education	300,000	-	-	(50,000)	250,000
May and Samuel Rudin	SchProg	-	20,000	-	(20,000)	-
Joy of Giving Something	ETW	-	10,000	-	(10,000)	-
Studio Institute	IntColl	-	400	-	(400)	-
Studio Institute	IntColl	-	1,000	-	(1,000)	-
Robert Lehman Foundation	AIR/Curatorial	-	21,000	-	(21,000)	-
Conscious Kids	ETW	-	25,000	-	(25,000)	-
Llewellyn Family Foundation	IntColl	-	200,000	-	(100,000)	100,000

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Notes to Consolidated Financial Statements (continued)
June 30, 2019**

Note 19 – Endowments (continued)

Temporarily restricted net assets (continued)

	Purpose Restriction	Balance at June 30, 2018	Contributions	Investment Income, net	Net Assets Released from Restrictions/ Appropriated for Expenditures	Balance at June 30, 2019
Temporarily restricted net assets –						
endowment returns						
Joseph and Joan Fund	inHarlem	\$ -	\$ 10,000	-	\$ (10,000)	\$ -
Fidelity Charitable Trust	Acquisitions	-	5,000	-	(5,000)	-
Neil Barsky Foundation	Acquisitions	-	5,000	-	(5,000)	-
Anonymous	Time Restrictions	-	5,000	-	(5,000)	-
Andrew W. Mellon Foundation	Time Restrictions	-	1,000,000	-	(500,000)	500,000
Gucci America, Inc.	Time Restrictions	-	100,000	-	(25,000)	75,000
Ford Foundation	Endowment	137,034	-	74,273	(59,806)	151,501
Anonymous Exhibition Fund	Endowment	40	-	37,290	(30,027)	7,303
Anonymous Education Fund	Endowment	40	-	37,290	(30,027)	7,303
Jacob and Gwendolyn Lawrence	Endowment	141,793	-	84,304	(67,884)	158,213
Lauder Fund (capital)	Endowment	27,944	-	46,131	(37,146)	36,929
Haring Fund	Endowment	35,708	-	57,664	(46,432)	46,940
The Studio Museum Women's Fund	Endowment	8	-	11,081	(8,922)	2,167
National Endowment for the Humanities	Endowment	58,955	-	31,816	(25,619)	65,152
Andrea Frank Foundation	Endowment	34,009	-	18,355	(14,780)	37,584
Hearst Foundation	Endowment	18,141	-	9,790	(7,883)	20,048
Bloomberg L.P.	Endowment	9,078	-	4,895	(3,942)	10,031
ConEdison	Endowment	9,078	-	4,895	(3,942)	10,031
Lea K. Green Fund	Endowment	497	9,600	459	(370)	10,186
Pepsico Foundation	Endowment	907	-	490	(394)	1,003
Andrew M. Mellon Foundation	Endowment	322	-	26,860	(21,628)	5,554
Thompson Fund	Endowment	-	-	295,206	(237,706)	57,500
GOS	Endowment	-	-	1,529	(1,232)	297
Total		\$ 66,307,881	\$ 12,714,779	\$ 742,328	\$ (11,192,761)	\$ 68,572,227

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

Consolidated Statement of Financial Position

June 30, 2019

(With Summarized Comparative Information for June 30, 2018)

Assets

Note 20 – Consolidating statements of financial position

	2019					2018		
	The Studio Museum in Harlem		Corp.		Consolidated	2018		Total
	Without Donor Restrictions	With Donor Restrictions	Total	Eliminating Entry		Without Donor Restrictions	With Donor Restrictions	
Current assets								
Cash and cash equivalents	\$ 263,243	\$ -	\$ 263,243	\$ -	\$ 7,959,845	\$ -	\$ 7,959,845	\$ 1,321,923
Accounts receivable	6,019	-	6,019	-	6,019	-	6,019	-
Current portion of contributions receivable	500,002	-	500,002	-	500,002	-	500,002	1,102,600
Leverage loan interest receivable	-	18,498	18,498	-	-	18,498	18,498	-
Due from related party	383,040	-	383,040	(383,040)	-	-	-	-
Investments, at fair value	-	16,413,314	16,413,314	-	-	16,413,314	16,413,314	16,373,498
Museum store inventory	77,883	-	77,883	-	77,883	-	77,883	77,883
Prepaid expenses and other insurance	266,579	-	266,579	-	266,579	-	266,579	435,935
(Due to) from	400,334	-	400,334	-	400,334	(400,334)	-	-
Total current assets	1,897,100	16,031,478	17,928,578	(383,040)	9,210,662	16,031,478	25,242,140	19,311,839
Leverage loan receivable								
Contributions receivable, net	-	6,702,733	6,702,733	-	-	6,702,733	6,702,733	-
Assets designated for facility plan	-	636,781	636,781	-	-	636,781	636,781	5,484,908
Cash and cash equivalents	-	35,619,533	35,619,533	-	-	35,619,533	35,619,533	33,503,221
Investments, at fair value	-	2,704,460	2,704,460	-	-	2,704,460	2,704,460	222,956
Contributions receivable, net	-	27,349,244	27,349,244	-	-	27,349,244	27,349,244	29,083,016
Total assets designated for facility plan	-	65,673,237	65,673,237	-	-	65,673,237	65,673,237	62,809,193
Property and equipment, at cost, net	21,117,417	-	21,117,417	-	23,082,542	-	23,082,542	16,226,256
Total assets	\$ 23,014,517	\$ 89,044,229	\$112,058,746	\$ (383,040)	\$ 32,293,204	\$ 89,044,229	\$121,337,433	\$103,832,196
Liabilities and Net Assets								
Current liabilities								
Accounts payable and accrued expenses	\$ 646,270	\$ -	\$ 646,270	\$ -	\$ 670,770	\$ -	\$ 670,770	\$ 988,449
Contracts payable	2,127,153	-	2,127,153	(383,040)	2,127,153	-	2,127,153	435,146
Total current liabilities	2,773,423	-	2,773,423	(383,040)	2,797,923	-	2,797,923	1,423,595
Long-term debt, net	(1,249,429)	-	(1,249,429)	-	8,013,671	-	8,013,671	-
Total liabilities	1,523,994	-	1,523,994	(383,040)	10,811,594	-	10,811,594	1,423,595
Net assets								
Without donor restrictions	21,490,523	-	21,490,523	-	21,481,610	-	21,481,610	15,777,503
With donor restrictions	-	68,572,227	68,572,227	-	-	68,572,227	68,572,227	66,307,881
Purpose/time restricted perpetual	-	20,472,002	20,472,002	-	-	20,472,002	20,472,002	20,323,217
Total net assets	21,490,523	89,044,229	110,534,752	-	21,481,610	89,044,229	110,525,839	102,408,601
Total liabilities and net assets	\$ 23,014,517	\$ 89,044,229	\$112,058,746	\$ (383,040)	\$ 32,293,204	\$ 89,044,229	\$121,337,433	\$103,832,196

**THE STUDIO MUSEUM IN HARLEM
AND SUBSIDIARY**

**Consolidated Statement of Activities
For Year Ended June 30, 2019
(With Summarized Comparative Information for the Year Ended June 30, 2018)**

Note 21 – Consolidating statements of activities

	2019				2018			
	The Studio Museum in Harlem		Support Corp.		Consolidated			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
Support and revenue								
Support								
City of NY Dept. of Cultural Affairs	\$ 944,440	-	\$ 944,440	\$ -	\$ -	\$ 944,440	\$ -	\$ -
Other Government grants	-	-	-	-	-	-	-	-
Contributions	2,703,231	12,863,564	15,566,795	2,703,231	12,863,564	15,566,795	2,703,231	12,863,564
Total support	3,647,671	12,863,564	16,511,235	-	-	16,511,235	-	-
Revenue								
Fundraising events	3,899,903	-	3,899,903	-	-	3,899,903	-	-
Membership fees	89,984	-	89,984	-	-	89,984	-	-
Rental	-	-	-	-	-	-	-	-
Museum sales	44,403	-	44,403	-	-	44,403	-	-
Investment returns, net	-	742,328	742,328	187	187	742,328	187	187
Other	46,196	-	46,196	-	-	46,196	-	-
Total revenue	4,080,486	742,328	4,822,814	187	187	4,822,814	187	187
Sub-total	7,728,157	13,605,892	21,334,049	187	187	21,334,049	187	187
Net assets released from restrictions	11,192,761	(11,192,761)	-	-	-	-	-	-
Total support and revenue	18,920,918	2,413,131	21,334,049	187	187	21,334,049	2,413,131	2,413,131
Expenses								
Program services								
Curatorial	1,322,528	-	1,322,528	-	-	1,322,528	-	-
Exhibitions	1,739,261	-	1,739,261	-	-	1,739,261	-	-
Education and public programs	2,297,563	-	2,297,563	-	-	2,297,563	-	-
Total program services	5,359,352	-	5,359,352	-	-	5,359,352	-	-
Supporting services								
Management and general	457,068	-	457,068	9,100	-	466,168	-	-
Development	5,287,414	-	5,287,414	-	-	5,287,414	-	-
Building operations	424,482	-	424,482	-	-	424,482	-	-
Total supporting services	6,168,964	-	6,168,964	9,100	-	6,178,064	-	-
Total expenses	11,528,316	-	11,528,316	9,100	-	11,537,416	-	-
Increase (decrease) in net assets before loss on disposal of assets	7,392,602	2,413,131	9,805,733	(8,913)	2,413,131	9,796,820	2,413,131	2,413,131
Loss on disposal of assets	(1,679,582)	-	(1,679,582)	-	-	(1,679,582)	-	-
Increase (decrease) in net assets	5,713,020	2,413,131	8,126,151	(8,913)	2,413,131	8,117,238	2,413,131	2,413,131
Net assets, beginning of year	15,777,503	86,631,098	102,408,601	-	-	15,777,503	86,631,098	86,631,098
Net assets, end of year	\$ 21,490,523	\$ 89,044,229	\$110,534,752	\$ (8,913)	\$ 21,481,610	\$110,525,839	\$ 89,044,229	\$ 89,044,229