

The Studio Museum in Harlem and Subsidiary

Consolidated Financial Statements

June 30, 2022

Independent Auditors' Report

Board of Trustees The Studio Museum in Harlem and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of The Studio Museum in Harlem (the "Museum") and its wholly owned subsidiary, SMH Support Corp. (the "Support Corp"), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Museum and the Support Corp. as of June 30, 2022, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's and the Support Corp.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's and the Support Corp.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary schedules on pages 32 and 33 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

April 28, 2023

The Studio Museum in Harlem and Subsidiary

Consolidated Statement of Financial Position June 30, 2022

ASSETS

Current Assets

Cash and cash equivalents	\$ 12,211,059
Current portion of contributions receivable	19,222,859
Leverage loan interest receivable	18,498
Investments, at fair value	42,691,694
Museum store inventory	58,526
Prepaid insurance, security deposits and other	540,793
Total Current Assets	<u>74,743,429</u>

Leverage loan receivable 6,702,733

Contributions receivable, net 6,346,722

Assets Designated for Capital Project

Cash and cash equivalents	10,422,071
Restricted cash	8,598,211
Investments, at fair value	15,193,433
Contributions receivable, net	4,370,882
Total Assets Designated for Capital Project	<u>38,584,597</u>

Property, equipment and leasehold improvements, at cost, net 79,620,130

\$ 205,997,611

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 643,355
Contracts payable	7,707,212
Total Current Liabilities	<u>8,350,567</u>

Long-term debt, net 14,713,495

Total Liabilities 23,064,062

NET ASSETS

Without Donor Restrictions

Undesignated	86,578,760
Board designated endowment	10,465,037
Total Without Donor Restrictions	<u>97,043,797</u>

With Donor Restrictions

Purpose and time	49,362,978
Endowment	36,526,774
Total With Donor Restrictions	<u>85,889,752</u>

Total Net Assets 182,933,549

\$ 205,997,611

See notes to consolidated financial statements

The Studio Museum in Harlem and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support			
Government	\$ 11,848,528	\$ -	\$ 11,848,528
SBA PPP loan forgiveness	960,590	-	960,590
Contributions	<u>5,956,928</u>	<u>35,723,893</u>	<u>41,680,821</u>
Total Support	<u>18,766,046</u>	<u>35,723,893</u>	<u>54,489,939</u>
Revenue			
Special events, net of direct benefits to donors of \$157,326	3,314,557	-	3,314,557
Membership fees	243,353	-	243,353
Museum sales	188,567	-	188,567
Investment return	(1,718,164)	(4,395,228)	(6,113,392)
Other	<u>179,151</u>	<u>-</u>	<u>179,151</u>
Total Revenue	<u>2,207,464</u>	<u>(4,395,228)</u>	<u>(2,187,764)</u>
Total Support and Revenue before Net Assets Released from Restrictions	20,973,510	31,328,665	52,302,175
Net assets released from restrictions	<u>23,868,961</u>	<u>(23,868,961)</u>	<u>-</u>
Total Support and Revenue	<u>44,842,471</u>	<u>7,459,704</u>	<u>52,302,175</u>
EXPENSES			
Program Services			
Curatorial	2,215,829	-	2,215,829
Exhibitions	570,151	-	570,151
Learning and Engagement	1,237,175	-	1,237,175
Retail and Visitor Services	393,807	-	393,807
Communications	657,596	-	657,596
Building and operations	315,002	-	315,002
Capital campaign	<u>2,712,072</u>	<u>-</u>	<u>2,712,072</u>
Total Program Services	<u>8,101,632</u>	<u>-</u>	<u>8,101,632</u>
Supporting Services			
Management and general	3,823,394	-	3,823,394
Development	<u>2,510,664</u>	<u>-</u>	<u>2,510,664</u>
Total Supporting Services	<u>6,334,058</u>	<u>-</u>	<u>6,334,058</u>
Total Expenses	<u>14,435,690</u>	<u>-</u>	<u>14,435,690</u>
Change in Net Assets	<u>30,406,781</u>	<u>7,459,704</u>	<u>37,866,485</u>
NET ASSETS			
Beginning of year	64,076,507	80,990,557	145,067,064
Net asset reclassification	<u>2,560,509</u>	<u>(2,560,509)</u>	<u>-</u>
Beginning of year, restated	<u>66,637,016</u>	<u>78,430,048</u>	<u>145,067,064</u>
End of year	<u>\$ 97,043,797</u>	<u>\$ 85,889,752</u>	<u>\$ 182,933,549</u>

See notes to consolidated financial statements

The Studio Museum in Harlem and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2022

	Program Services							Supportive Services				Total
	Curatorial	Exhibitions	Learning and Engagement	Retail and Visitor Services	Communications	Building and Operations	Capital Campaign	Total Program Services	Management and General	Development	Total Supportive Services	
Personnel Expenses												
Salaries and wages	\$ 322,084	\$ 207,632	\$ 838,740	\$ 183,546	\$ 364,155	\$ 205,667	\$ 159,936	\$ 2,281,760	\$ 1,667,568	\$ 999,179	\$ 2,666,747	\$ 4,948,507
Payroll taxes and fringe benefits	83,900	53,536	248,543	57,008	98,772	59,641	34,123	635,523	598,399	352,969	951,368	1,586,891
Total Personnel Expenses	405,984	261,168	1,087,283	240,554	462,927	265,308	194,059	2,917,283	2,265,967	1,352,148	3,618,115	6,535,398
Administrative services	111	21,481	11,768	-	149,025	-	257,122	439,507	608	99,312	99,920	539,427
Advertising	-	8,000	-	-	6,396	-	5,000	19,396	17,451	-	17,451	36,847
AIR stipends	-	73,269	32,250	-	-	-	-	105,519	-	-	-	105,519
Art costs and storage	1,714,998	136,470	750	-	-	-	7,700	1,859,918	170	796	966	1,860,884
Bad debt expense	-	-	-	-	-	-	510,000	510,000	75,000	-	75,000	585,000
Communication costs	-	-	-	-	6,357	-	-	6,357	76,611	-	76,611	82,968
Development consultant	-	-	-	-	-	-	264,000	264,000	-	130,102	130,102	394,102
Equipment repairs and maintenance	33,660	-	-	-	-	15,436	-	49,096	185,227	-	185,227	234,323
Special events and entertainment	-	-	-	-	-	-	196	196	33,617	53,092	86,709	86,905
Insurance	9,361	-	-	-	-	-	-	9,361	74,906	-	74,906	84,267
Interest, bank fees, payroll and other fees	4,056	250	105	23,055	10	419	243,890	271,785	163,079	48,342	211,421	483,206
Conferences, meetings and staff development	1,374	123	2,384	180	445	-	7,107	11,613	52,865	2,786	55,651	67,264
Occupancy and utility costs	15,204	-	-	11,000	-	26,249	886,807	939,260	4,343	111,863	116,206	1,055,466
Postage and shipping	213	607	1,978	22,237	3,320	(202)	254	28,407	11,794	108,860	120,654	149,061
Printing and duplication	13,142	8,075	2,831	332	25,204	-	1,788	51,372	3,720	133,569	137,289	188,661
Professional fees	98	22,049	-	-	-	-	108,476	130,623	394,779	-	394,779	525,402
Special events - catering, gala/video venue and other	-	-	-	-	-	-	179,822	179,822	1,728	155,598	157,326	337,148
Supplies	8,097	11,733	42,535	802	1,571	6,306	15,991	87,035	64,084	325,241	389,325	476,360
Technology services	-	8,990	1,193	1,581	1,536	-	25,060	38,360	242,404	37,130	279,534	317,894
Temporary employment agency	-	-	-	-	-	-	-	-	32,462	-	32,462	32,462
Travel	1,338	5,546	6,323	-	805	1,456	-	15,468	44,060	106,923	150,983	166,451
Prizes and scholarships	-	-	16,000	-	-	-	-	16,000	-	-	-	16,000
Program consultant fees	-	12,390	31,775	-	-	-	-	44,165	-	500	500	44,665
Construction costs	8,193	-	-	-	-	30	4,800	13,023	-	-	-	13,023
Cost of sales	-	-	-	94,066	-	-	-	94,066	-	-	-	94,066
Depreciation and amortization	-	-	-	-	-	-	-	-	80,247	-	80,247	80,247
Total Expenses	2,215,829	570,151	1,237,175	393,807	657,596	315,002	2,712,072	8,101,632	3,825,122	2,666,262	6,491,384	14,593,016
Less: cost of direct expenses of special events	-	-	-	-	-	-	-	-	(1,728)	(155,598)	(157,326)	(157,326)
Total Expenses Reported by Function on Statement of Activities	\$ 2,215,829	\$ 570,151	\$ 1,237,175	\$ 393,807	\$ 657,596	\$ 315,002	\$ 2,712,072	\$ 8,101,632	\$ 3,823,394	\$ 2,510,664	\$ 6,334,058	\$ 14,435,690

See notes to consolidated financial statements

The Studio Museum in Harlem and Subsidiary

Consolidated Statement of Cash Flows Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 37,866,485
Adjustments to reconcile change in net assets to net cash from operating activities	
Forgiveness in SBA PPP loan	(960,590)
Bad debt expense	585,000
Depreciation	80,247
Amortization of closing costs	262,087
Net realized and unrealized loss on investments	8,105,491
Change in present value discount of pledges receivable	68,182
Cash received for capital campaign	(24,634,460)
Permanently restricted contributions	(6,415,579)
Changes in operating assets and liabilities	
Contributions receivable	(14,173,203)
Museum store inventory	19,357
Prepaid insurance, security deposits and other	(250,486)
Accounts payable and accrued expenses	(155,286)
Net Cash from Operating Activities	<u>397,245</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	27,044,395
Purchases of investments	(36,789,770)
Additions to property and equipment	(28,279,271)
Change in contracts payable	<u>2,132,355</u>
Net Cash from Investing Activities	<u>(35,892,291)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from building loan	9,873,524
Repayment of building loan	(6,008,507)
Cash contributions restricted for capital campaign	24,634,460
Permanently restricted contributions	<u>6,415,579</u>
Net Cash from Financing Activities	<u>34,915,056</u>
Net Change in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	(579,990)

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS

Beginning of year	<u>31,811,331</u>
End of year	<u>\$ 31,231,341</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION CASH FLOW INFORMATION

Interest paid in cash (all was capitalized as CIP)	\$ 103,193
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See notes to consolidated financial statements

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

1. Organization and Tax Status

The Studio Museum in Harlem (the “Museum”) and its wholly owned subsidiary, SMH Support Corp. (the “Support Corp”), are incorporated in the State of New York. 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 a 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 (“AIR”) 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 historical art 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 was 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 included 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’s permanent collection.

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 “Capital Project”). As a result, during the 2019 fiscal year, the 60,000 square foot facility was demolished and many of the programs the Museum offered are limited.

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 and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

1. Organization and Tax Status *(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. In connection with the facility being demolished, the Museum Store was vacated and dismantled, all inventory was stored at an offsite facility.

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 activities are to (i) lease property in New York, New York, currently leased by the Museum for the Capital Project, (ii) borrow low-interest rate funds, (iii) contract to rehabilitate and expand facilities at the Capital Project, and (iv) lease the Capital 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.

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 Support 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 Support 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 Support 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

June 30, 2022

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of The Studio Museum in Harlem and Subsidiary include the accounts of the Museum and the Support Corp. The Museum and the Support Corp. have interrelated directors/officers. In preparing the accompanying consolidated financial statements, all inter-company balances and transactions have been eliminated.

Adoption of Accounting Principle

As of July 1, 2021, the Museum and the Support Corp. adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2020-07 ("ASU 2020-07"), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. ASU 2020-07 brings more transparency and consistency to the presentation and disclosure of gifts-in-kind. The standard does not change the accounting for gifts-in-kind, however, provides matters related to presentation and disclosure.

Basis of Presentation and Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles general accepted in the United States of America ("U.S. GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses reported during that period. Actual results could differ from those estimates.

Net Assets

The Museum's and the Support Corp.'s reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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.

Without donor restrictions - consist of resources available for the general support of the Museum's and the Support Corp.'s operations and may be used at the discretion of the Museum's and the Support Corp.'s management and its Board of Trustees.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Net Assets (continued)

With donor restrictions - consist of resources which have either an implied or stated time restriction or have been restricted by donors for specific activities, including gift instruments requiring the principal be invested in perpetuity and the investment income be used for specific or general purposes. Donor restrictions that have been satisfied are reported in the consolidated statement of activities as net assets released from restrictions and are reclassified to net assets without donor restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as support without donor restrictions.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include all cash balances held in bank accounts and other highly liquid investments purchased with a maturity of three months or less at the time of purchase that can be used for operating purposes.

Restricted cash includes those balances designated as reserves or restricted as to use until the substantial completion of the Museum's Capital Project.

The following is a reconciliation of the cash, cash equivalents and restricted cash reported on the consolidated statement of financial position to the consolidated statement of cash flows at June 30, 2022:

Cash and cash equivalents - Undesignated	\$ 12,211,059
Cash and cash equivalents - Capital Project	10,422,071
Restricted cash	<u>8,598,211</u>
	<u>\$ 31,231,341</u>

Advertising

Advertising expense is recognized as the expense is incurred.

Contributions

Government grant revenue is recognized in the consolidated statement of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period.

Contributions, including unconditional promises to give, are reported as with or without donor restriction revenues in the period received based on donor stipulations. Unconditional promises to give that are greater than one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Bequests and wills are recorded as revenue when a legally binding obligation notice is received and when a fair value can reasonably be determined.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

2. Summary of Significant Accounting Policies (continued)

Contributions (continued)

Contributions that the donor requires to be used to acquire or renovate long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as with donor restrictions. The donor-imposed restrictions are satisfied when long-lived assets have been placed in service, at which time 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.

Conditional contributions and grants are recognized as revenue when the barriers on which they depend have been substantially met.

The Museum and the Support Corp. do not recognize revenue until it is probable of collection. Based on strong collection experience, the Museum and the Support Corp. have concluded that all revenue recognized is probable of collection.

Allowance for Doubtful Accounts

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

Contributed Services

The Museum is 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 contributed.

Investments

The Museum carries investments in marketable securities at their fair values based on quoted prices in active markets (all Level 1 measurements) in the consolidated statement of financial position. All interest, dividends, realized and unrealized gains and losses are included in change in net assets in the consolidated statement of activities.

Fair Value Measurements

The Museum follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices for similar assets and liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Inventory

The Museum's store inventory is stated at the lower of cost or net realizable value.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

2. Summary of Significant Accounting Policies (continued)

Property, Equipment and Leasehold Improvements

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

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount of the asset is not recoverable, the value is written down to the asset's fair value.

Construction in Progress

Construction in progress includes all costs associated with the design and construction of the Museum and the Support Corp.'s Capital Project. Upon completion, the cost of the Capital Project will be placed into service and depreciated over its estimated useful life on a straight-line basis.

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 the items purchased is reported as a separate program expense. Contributed collection items are not reflected in the consolidated financial statements.

Functional Allocation of Expenses

The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Expenses are summarized and categorized based upon their functional classification as either program services or supporting services. Specific expenses that are readily identifiable to a single program or supporting activity are charged directly to that function. Certain expenses such as salaries, administrative services, art costs and storage, occupancy and utility costs, and other operational expenses are attributable to more than one program or supporting function and have been allocated based on time and effort or by reasonable ratios determined by management.

Deferred Loan Closing Costs

The deferred loan closing costs were incurred in connection with the notes payable (see note 8) and are being amortized using the straight-line method over the life of the notes. The unamortized portion is netted with the related long-term debt on the consolidated statement of financial position.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

2. Summary of Significant Accounting Policies (continued)

Accounting for Uncertainty in Income Taxes

The Museum and the Support Corp. recognize the effect of income tax positions only if those positions are more likely than not to be sustained. Management is not aware of any violations of its tax status as organizations exempt from income tax, nor of any exposure to unrelated business income tax that would require financial statement recognition or disclosure. The Museum and the Support Corp. are no longer subject to examination by the applicable taxing jurisdictions for years prior to 2019.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the financial statements were available to be issued, which date is April 28, 2023.

Reclassification of Prior Year Presentation

During the preparation of the fiscal 2022 consolidated financial statements, management reviewed certain net asset restrictions and determined that \$2,560,509 of net assets was historically reported as net assets with donor restrictions when the amount should have been classified as net assets without donor restrictions. As a result, management reclassified the amount from the beginning of year net assets with donor restrictions to net assets without donor restrictions on the consolidated statement of activities.

3. Concentrations of Credit Risk

The Museum and the Support Corp.'s financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, contributions receivable and a loan receivable. The Museum and the Support Corp. place its cash and cash equivalents with high credit quality financial institutions which, at times, may exceed federally insured limits prescribed by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2022, the uninsured portion of this balance was \$29,359,637.

The Museum places its investments with credit worthy, high quality financial institutions where the balances may at times exceed the federally insured limits prescribed by the Securities Investor Protection Corporation ("SIPC").

Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals composing the Museums' donor base. The loan receivable is due from Studio Museum in Harlem NMTC Investment Fund, LLC (the "Investment Fund") created in connection with a new market tax credit program agreement.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

3. Concentrations of Credit Risk *(continued)*

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, 2022.

The Museum and the Support Corp. believe no significant risk of loss exists with respect to its cash, cash equivalents, investments and receivables.

4. Contributions Receivable

Unconditional promises to give are included in the consolidated financial statements as contributions and pledges receivable, net of a present value discount ranging from 0.06% to 2.68% of the future cash flows. Contributions and pledges receivable consist of the following at June 30, 2022:

Up to one year	\$ 19,222,859
Two to five years	10,426,850
More than five years	<u>600,000</u>
Sub-total	30,249,709
Less: present value discount	<u>(309,246)</u>
	<u>\$ 29,940,463</u>

5. Leverage Loan Receivable

During December 2018, in connection with the Capital Project, the Museum entered into a leverage loan agreement ("Loan") with the Investment Fund.

The Museum loaned the Investment Fund \$6,702,733 which matures on December 27, 2048 (the "Maturity Date"), when all outstanding principal and accrued and unpaid interest shall be received by the Museum. 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 Investment Fund shall make an interest only payment for the period accrued from October 10, 2025 through December 27, 2025. On April 10, 2026, the Investment Fund 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 Investment Fund's rights, title and interest, as defined in the Loan agreement.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

5. Leverage Loan Receivable *(continued)*

Scheduled principal collections on outstanding loan is to be received as follows:

Fiscal Year		
2023	\$	-
2024		-
2025		-
2026		74,355
2027		301,616
2028 and thereafter		<u>6,326,762</u>
		<u>\$ 6,702,733</u>

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, 2022:

	Level	Fair Value
Money market funds	(1)	\$ 20,059,482
Government obligations	(1)	8,321,441
Corporate obligations	(2)	7,913,875
Mortgage backed	(2)	1,329,136
Equities	(1)	5,612,558
Mutual Funds		
Equities	(1)	9,289,458
Fixed income	(1)	2,664,149
Real assets funds	(1)	<u>2,695,028</u>
Total		<u>\$ 57,885,127</u>

Investments consist of:

Operations	\$ 42,691,694
Designated for facility plan	<u>15,193,433</u>
Total	<u>\$ 57,885,127</u>

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

7. Property, Equipment and Leasehold Improvements

As of June 30, 2022, property, equipment and leasehold improvements consist of the following:

Building and leasehold improvements	\$	326,889
Furniture, fixtures and equipment		1,311,264
Construction in progress (Support Corp.)		9,295,000
Construction in progress ("CIP")		<u>70,034,713</u>
		80,967,866
Less: accumulated depreciation and amortization		<u>(1,347,736)</u>
		<u>\$ 79,620,130</u>

Depreciation expense for the years ended June 30, 2022 was \$80,247. During the year interest expense of \$103,193 was capitalized as CIP to the Museum's property, equipment and leasehold improvements.

8. Long-Term Debt

Building loan

During December 2018, the Museum entered into a \$58,831,000 Building Loan Agreement (the "Building Loan") with a financial institution to obtain bridge financing to fund the Museum's Capital Project, subject to terms and conditions as outlined in the Building Loan agreement. The Building 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 reimbursements for Building Loan advances from the City Funds' reimbursable costs, as defined in the City Grant Agreement. During March 2020, another financial institution has been selected to service this Building Loan. The Building Loan was set to expire in December 2021.

On December 15, 2021, the Museum, as a result of unavoidable construction delays in the Capital Project, the Museum entered into an amended and restated loan agreement, with generally the same terms as the original Building Loan, extending the maturity date to December 21, 2023. The Museum has selected to amortize the closing costs related to this Building Loan and other financing over the original three-year period.

Throughout the term of the Building Loan, the outstanding principal amount shall bear interest at adjusted LIBOR plus 300 basis points or at the bank's prime rate. The Building 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 Building Loan during the quarter ended immediately prior to the payment date, as outlined in the Building Loan documents. Such fee is recorded as interest expense in the consolidated financial statements.

The Building Loan requires certain reserve balances totaling \$8,598,211 as of June 30, 2022, as defined in the loan documents. Any Building 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.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

8. Long-Term Debt *(continued)*

Note Payable 1

On December 27, 2018, the Support Corp. obtained a 30-year \$6,702,733 note ("Note 1") from Citi NMTC Subsidiary CDE XXXIII, LLC which will mature on December 27, 2048. The proceeds of Note 1 are being used to fund the 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 1 will be eliminated in consolidation as shown on the consolidating schedule of financial position.

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 fund the Capital Project. 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, 2022:

Fiscal Year	Building Loan	Note 1	Note 2	Total
2023	\$ -	\$ -	\$ -	\$ -
2024	5,395,795	-	-	5,395,795
2025	-	-	-	-
2026	-	129,940	60,044	189,984
2027	-	259,556	119,940	379,496
2028 and thereafter	-	6,313,237	2,917,283	9,230,520
	<u>5,395,795</u>	<u>6,702,733</u>	<u>3,097,267</u>	<u>15,195,795</u>
Less: current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Long-term portion	5,395,795	6,702,733	3,097,267	15,195,795
Less: unamortized loan closing costs	-	(327,964)	(154,336)	(482,300)
Net Long-Term Portion	<u>\$ 5,395,795</u>	<u>\$ 6,374,769</u>	<u>\$ 2,942,931</u>	<u>\$ 14,713,495</u>

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

9. 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 pension costs for specific eligible Museum employees who are on City-funded payrolls. 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 defined benefit pension contribution costs for the year ended June 30, 2022 is as follows:

Paid by the City of New York	\$ 96,115
Paid by the Museum	<u>489,448</u>
	<u>\$ 585,563</u>

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

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

Investment securities held by the CIRS Plan, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As a result of the recent COVID-19 pandemic, significant declines in the values of investment securities held by the CIRS Plan may occur and may fluctuate in response to changing market conditions and such changes may have a material effect on the Museum's required future contributions to the CIRS Plan.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

9. Pension and Retirement Plans *(continued)*

The Museum's participation in the CIRS Plan for the year ended June 30, 2022 is outlined in the table below. The "EIN" column provides the employer identification number for the plan. The most recent Pension Protection Act ("PPA") zone status is green at June 30, 2022, and as required by the PPA, is certified by the Plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The CIRS Plan does not have a financial improvement plan or rehabilitation plan pending or implemented. The last column lists the expiration dates of the collective bargaining agreement to which the plan is subject. The Museum's contributions to the CIRS Plan did not exceed 5% of the CIRS Plan's total contributions for the year ended June 30, 2022.

Pension Fund	EIN	Plan Number	Protection Act Zone Status	Total Pension Cost to the Plan	Expiration Date of Collective Bargaining Agreement
The Cultural Institution's Pension Plan	11-2001170	001	Green	\$ 585,563	6/30/2020*

* Renewal is under negotiation.

10. Lease Agreements

Office Space Leases

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

During December 2016, the Museum entered into a permit for use of state-owned property for office space at 163 West 125th Street (NYC), beginning on December 1, 2016 through November 30, 2019. The lease required an annual permit fee of \$76,260 payable in monthly installments of \$6,355. From December 2019 through June 2020, the permit fee for state-owned property was on a month-to-month basis under the latest terms. During July 2020, the permit for use of state-owned property was extended to July 2023 at an annual fee of \$94,054, payable in monthly installments of \$7,838.

During October 2017, the Museum entered into a lease for office space at 429 West 127th Street (NYC), beginning on January 1, 2018 through December 31, 2020. The lease required monthly base rent of \$13,238 increasing to \$14,594 in the third year of the lease. During February 2020, the Museum amended the term of the lease to June 30, 2023. The amended lease requires monthly base rent of \$17,513 increasing to \$19,308. 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 insurance, security deposits and other on the consolidated statement of financial position.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

10. Lease Agreements *(continued)*

During June 2018, the Museum entered another lease for office space at 310 Lenox Avenue (NYC), beginning on June 12, 2018 through June 30, 2021. The lease required annual base rent of \$450,000, increasing to \$477,405 in the third year of the lease. The Museum had the option to renew the lease for a two-year period. The Museum exercised its option to renew the lease for two additional years expiring on June 30, 2023. The renewal option requires an annual base rent of \$491,727 and \$506,479 for the fiscal years ending June 30, 2022 and June 30, 2023. 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 insurance, security deposits and other on the consolidated statement of financial position. The total office space expense for the fiscal year ended June 30, 2022 was \$924,880 and is recorded as occupancy and utilities in the consolidated statement of functional expenses.

Fiscal Year	163 West 125th St.	429 West 127th St.	310 Lenox Avenue	Total
2023	\$ 94,054	\$ 226,183	\$ 506,479	\$ 826,716
2024	7,838	-	-	7,838
Total	<u>\$ 101,892</u>	<u>\$ 226,183</u>	<u>\$ 506,479</u>	<u>\$ 834,554</u>

Storage Spaces Leases

During April 2015, the Museum entered into a storage lease agreement for its artwork (157 West 124th Street, NYC). 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 (Newark, NJ) 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.

During July 2021, the Museum entered into a third storage lease agreement (122 West 146th St, NYC) for its artwork. The initial term of the lease will expire September 2031. The lease is then renewable for an additional five-year term. Thereafter, it will continue on a month-to-month basis unless terminated by either party. The Museum has paid a security deposit of \$62,139. This deposit is recorded with prepaid insurance, security deposits and other on the consolidated statement of financial position. The landlord provided the Museum a rent credit for 3 months. The lease required an annual base rent of \$745,668 increasing to \$931,327 in the 10th year of the lease. If the Museum elects to renew for an additional five-year term, the annual fixed rent shall be equal to the greater of ninety percent of the annual fair market value of the premises in its condition on the commencement date of the renewal term or \$954,518 per annum.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

10. Lease Agreements *(continued)*

The total storage space expense for the fiscal year ended June 30, 2022 was \$1,060,887 and is recorded in art costs and storage in the consolidated statement of functional expenses. The required minimum amount of rent payments as of June 30, 2022 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2023	\$ 1,303,770
2024	1,374,980
2025	1,408,234
2026	1,206,866
2027	1,008,758
Thereafter	<u>4,397,024</u>
Total	<u>\$ 10,699,632</u>

11. Sub-Sublease Agreement

On December 27, 2018, the Support Corp. entered into a Sub-Sublease Agreement with the Museum for certain real property (including tenant initial improvements) to be used by the Museum for the operation of the museum. The Support Corp. holds a sub-leasehold interest in the real property where the new museum is being built with the City of New York, pursuant to the Sublease dated the same date between the Support Corp., as sublessee, and the Museum, as sublessor (the "Sublease"), which the Sublease is subject and subordinate to certain Amended and Restated Agreement of the Lease dated as of December 14, 2018, (the "Lease") between the Museum, as tenant, and the City of New York, as landlord (the "Landlord").

The Museum and the Support Corp. entered the Sublease in connection with the Support Corp.'s construction and financing of the Museum's initial improvements (as defined in the Lease), which, following completion, will result in a new museum building. The Museum is responsible hereunder for operation of the museum.

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. The Museum shall pay to the Support Corp. 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 base rent schedule.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

11. Sub-sublease Agreement (*continued*)

The following is a summary of the future the Support Corp. cash receipts.

<u>Fiscal Year</u>	<u>Amount</u>
2023	\$ 104,000
2024	104,000
2025	130,000
2026	622,000
2027	622,000
2028 and thereafter	<u>13,062,001</u>
Total	<u>\$ 14,644,001</u>

12. Commitments

Capital Project

The Museum's Capital Project is on the site of its former 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 Capital 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 Project is 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, 2022, totaled \$79,329,713 (including approximately \$9,295,000 Support Corp.'s share) and are recorded as construction in progress in the property, equipment and leasehold improvements accounts in the consolidated statement of financial position. As of June 30, 2022, work completed under the various contracts but remains to be paid was approximately \$7,707,000 and is recorded as contract payable on the consolidated statement of financial position.

Such appropriation is evidenced by certain cultural capital grant agreement dated January 2, 2019 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 agreement was registered by the city's comptroller office on February 26, 2019 with an original expiration date of February 22, 2022. During December 2021, such grant agreement was extended through June 30, 2024. This appropriation has not been recorded in these consolidated financial statements.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

12. Commitments *(continued)*

Funding

The following is a summary of the various donations for the Capital Project since 2012:

<u>Fiscal Year</u>	<u>Balance at beginning of fiscal year</u>	<u>Reclassifications *</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	(1,000,000)	11,108,958	(5,343,900)	9,552,854
2017	9,552,854	-	22,979,267	(4,028,355)	28,503,766
2018	28,503,766	-	40,515,576	(7,210,149)	61,809,193
2019	61,809,193	-	11,302,779	(8,438,735)	64,673,237
2020	64,673,237	-	5,513,902	(12,198,018)	57,989,121
2021	57,989,121	(2,060,509)	3,947,159	(12,918,478)	46,957,293
2022	46,957,293	-	11,745,886	(20,522,642)	38,180,537
Total		<u>\$ (3,060,509)</u>	<u>\$ 114,742,981</u>	<u>\$ (73,501,935)</u>	

* Prior year reclassifications related to various restrictions and endowment activity.

In addition, 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 Capital Project. Such appropriation is evidenced by a certain cultural capital grant agreement dated January 2, 2019 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 agreement was registered by the City's Comptroller office on February 26, 2019 with an original expiration date of February 22, 2022. During December 2021, such agreement was extended through June 30, 2024. Through June 30, 2022, \$14,548,468 of appropriated funds have been used by the Museum.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

13. City Transfers

At its June 19, 2018 meeting, the Museum Board of Trustees (the "Board") 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 organization 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 Capital 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 Capital Project and allowed for the New Markets Tax Credit and bridge loan financing transactions described in Notes 8 and 14.

14. New Market Tax Credit Program Agreement ("NMTC")

The Museum has a 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 agreement. The property used to secure service financing is the new facility that is expected to be built at the Museum's current site. The NMTC financing was arranged on behalf of the Support Corp. The Support Corp. served as the qualified active low income community business (QALICB) for the NMTC financing.

15. Related Party Transactions

For the fiscal year ended June 30, 2022 in connection with the Museum's Capital Project, the Museum obtained legal services from a law firm where a member of the Board is a partner at the law firm. The partner 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 fiscal 2022, the total legal services provided to the Museum was approximately \$127,000. In connection with the Capital Project, the Museum capitalized approximately \$72,000 of legal expenses during fiscal 2022. There were no contributed services or other gifts in-kind that were restricted by donors.

16. Paycheck Protection Program Loans

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted to, amongst other provisions, to provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. Organizations affected by the coronavirus pandemic were allowed to apply for CARES Act loans under the Paycheck Protection Program Loan (the "PPP loan") from the United States Small Business Administration ("SBA"). The PPP loan has an interest rate of 1.0% per annum. The amounts received are forgivable if the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent and utilities.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

16. Paycheck Protection Program Loans (*continued*)

During May 2021, the Museum applied for and received a PPP loan under the Consolidated Appropriations Act of 2021 for \$960,590. On February 22, 2022, the Museum received full forgiveness from the SBA of the \$960,590 of loan proceeds received. During the year ended June 30, 2022, the Museum recognized the income from the forgiveness of the PPP loan in accordance with Accounting Standards Codification ("ASC") 470, Debt.

17. Employee Retention Payroll Tax Credits

In response to the coronavirus emergency, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act provided, among other things, a refundable payroll tax credit ("ERC") of 50% of the first \$10,000 of qualified wages per employee for wages paid or incurred from March 13, 2020 through December 31, 2020. During 2021, the Consolidated Appropriations Act and the American Rescue Plan Act increased the payroll tax credit from 50% to 70% up to \$10,000 of qualified wages per quarter per employee through December 31, 2021, for eligible employers. The Infrastructure Investment and Jobs Act signed in November 2021, retroactively terminated the employee retention payroll tax credits as of September 30, 2021. During fiscal year 2022, in connection therewith, the Museum filed the amended payroll forms and is expected to receive a total of \$1,118,859 of such payroll tax credits. As of the date of these consolidated financial statements were available for issuance, \$200,867 was received. The Museum has elected to not record a receivable and corresponding credit as the likelihood of receiving the remaining amount was not certain considering the government backlog and delays in processing. The payroll credits have been recorded as government support on the consolidated statement of activities. The Museum will record the benefit of the ERC credits in the Museum's consolidated financial statements during the year they are received.

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.

19. Board Designated Endowment Net Assets

The Museum's Board designated a portion of the net assets without donor restrictions to be used for specific operational purposes.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022

20. Endowment

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

Interpretation of Relevant Law

The Board has interpreted the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board classifies as net assets with donor restrictions (perpetual in nature) (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions (perpetual in nature) is classified as net assets with donor restrictions (temporary in nature) until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Investment Objectives

The investment strategy of the Museum endowment funds' 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 to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

Investments held are expected to achieve a balanced return of current income and modest growth of principal to equal or exceed a return to be determined by the Finance Committee of the Board based upon selected benchmarks and as outlined in the Museum's investment policy. To monitor and oversee the Museum's investments, the Board selects qualified investment managers.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

20. Endowment (continued)

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 twelve quarters. (For distribution purposes, the fair value of the endowment shall be based on the average values for the preceding twelve 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.

The following is a reconciliation of the activity in the endowment funds for 2022:

	Without Donor Restrictions	With Donor Restrictions		Total
	Board Designated Endowment Funds	Unappropriated Endowment Earnings	Donor-Restricted Endowment Funds	
Balance, June 30, 2021	\$ 12,000,000	\$ 3,685,711	\$ 20,469,767	\$ 36,155,478
Net asset reclassification *	-	-	1,000,000	1,000,000
Net Assets, Beginning of Year Restated	12,000,000	3,685,711	21,469,767	37,155,478
Contributions	-	-	15,057,007	15,057,007
Investment income	442,036	1,140,548	-	1,582,584
Capital depreciation	(1,976,999)	(5,101,077)	-	(7,078,076)
Balance, June 30, 2022	<u>\$ 10,465,037</u>	<u>\$ (274,818)</u>	<u>\$ 36,526,774</u>	<u>\$ 46,716,993</u>

* During the preparation of the fiscal 2022 financial statements, management reviewed certain donor restrictions and determined that \$1,000,000 of endowment corpus was historically reported within purpose restricted net assets, apart from the endowment. The amount should have been classified as endowment restricted net assets. As a result, management reclassified the amount from the beginning of year net assets subject to expenditure for a specified purpose in Capital Project to net assets held as endowment in perpetuity as donor restricted endowment.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Museum has interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Should the value of the endowment fall below the corpus of the gift, the shortfall will be offset with available funds until such time that the value exceeds the corpus. At June 30, 2022 six of the twenty endowments were underwater totaling \$1,834,229.

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

20. Endowment (continued)

Net assets with donor restrictions that are perpetual in nature are endowments to be held in perpetuity in accordance with donor intentions. Income from these net assets is to be used to support with and without donor restricted purposes.

The Ford Foundation Contribution	\$ 1,515,000
Thompson Family Foundation	6,600,000
Anonymous	5,000,000
Jacob and Gwendolyn Lawrence	1,685,520
Joyce Alexander Wein	1,125,000
Lauder Fund	1,000,000
The Studio Museum Women's Fund	1,023,336
Robert Rauschenberg Foundation	1,000,000
National Endowment for the Humanities	650,000
The Andrea Frank Foundation	375,000
Hearst Foundation	200,000
Lea K. Green Fund	142,918
Bloomberg L.P.	100,000
Con Edison	100,000
PepsiCo Foundation	10,000
Glenstone Foundation	10,000,000
Alexandra Clancy Endowment Fund	1,000,000
Pilot House (Hotstetter)	4,000,000
Haring Fund	1,000,000
Total	<u>\$ 36,526,774</u>

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements June 30, 2022

21. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	Balance at June 30, 2021	Contributions	Investment Return	Net Assets Released From Restrictions Appropriated for Expenditure	Balance at June 30, 2022
Subject to expenditure for a specified purpose:					
AIR program	\$ 215,000	\$ 66,000	\$ -	\$ (33,000)	\$ 248,000
Archives	-	355,000	-	-	355,000
Bloomberg connects	-	250,000	-	(19,937)	230,063
Collection management	-	3,500,000	-	-	3,500,000
Curatorial	327,137	-	-	(246,947)	80,190
Digital programing	175,000	-	-	(104,965)	70,035
Education	200,000	-	(95,935)	-	104,065
Expending the walls InHarlem	65,000	-	-	(32,500)	32,500
Permanent collection	50,140	-	(44,568)	-	5,572
Program and event sponsorship	-	1,000,000	-	(100,000)	900,000
SMH history book	-	1,000,000	-	(26,500)	973,500
Studio Museum institute	125,000	250,000	-	(250,000)	125,000
Capital Project	46,957,293	11,745,886	(294,196)	(20,228,446)	38,180,537
Unappropriated endowment earnings	3,685,711	-	(3,960,529)	-	(274,818)
	<u>51,800,281</u>	<u>18,166,886</u>	<u>(4,395,228)</u>	<u>(21,042,295)</u>	<u>44,529,644</u>
Subject to the passage of time:					
For the period after June 30	5,160,000	2,500,000	-	(2,826,666)	4,833,334
Held as endowment in perpetuity:					
Donor restricted endowment	21,469,767	15,057,007	-	-	36,526,774
Total Net Assets with Donor Restrictions	<u>\$ 78,430,048</u>	<u>\$ 35,723,893</u>	<u>\$ (4,395,228)</u>	<u>\$ (23,868,961)</u>	<u>\$ 85,889,752</u>

The Studio Museum in Harlem and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2022

22. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date, is comprised of the following at June 30, 2022:

Financial Assets	
Cash and cash equivalents	\$ 31,231,341
Contributions receivable	29,940,463
Investments, at fair value	<u>57,885,127</u>
Total Financial Assets	119,056,931
Less:	
Board designated net assets	10,465,037
Unappropriated endowment earnings	274,818
Restricted cash	8,598,211
Purpose and time restrictions	49,362,978
Donor restricted endowment	<u>36,526,774</u>
Financial Assets Available for	
General Expenditures	<u>\$ 14,378,749</u>

As part of the Museum's and the Support Corp.'s strategy, management structures its financial assets, consisting of cash and cash equivalents, contributions receivable and investments to be available as its general expenditures and liabilities come due within one year.

As a condition of a building loan agreement, the Museum and the Support Corp. has a reserve totaling \$8,598,211 as of June 30, 2022 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.

Board designated amounts can be accessed by a vote of the Board of Trustees.

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The Studio Museum in Harlem and Subsidiary

Supplementary Information

June 30, 2022

The Studio Museum in Harlem and Subsidiary

Consolidating Schedule of Financial Position June 30, 2022

	The Studio Museum in Harlem	SMH Support Corp.	Consolidated Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 12,143,033	\$ 68,026	\$ 12,211,059
Current portion of contributions receivable	19,222,859	-	19,222,859
Leverage loan interest receivable	18,498	-	18,498
Investments, at fair value	42,691,694	-	42,691,694
Museum store inventory	58,526	-	58,526
Prepaid insurance, security deposits and other	540,793	-	540,793
Total Current Assets	<u>74,675,403</u>	<u>68,026</u>	<u>74,743,429</u>
Leverage loan receivable	<u>6,702,733</u>	-	<u>6,702,733</u>
Contributions receivable, net	<u>6,346,722</u>	-	<u>6,346,722</u>
Assets Designated for Capital Project			
Cash and cash equivalents	10,422,071	-	10,422,071
Restricted cash	8,598,211	-	8,598,211
Investments, at fair value	15,193,433	-	15,193,433
Contributions receivable, net	<u>4,370,882</u>	-	<u>4,370,882</u>
Total Assets Designated for Capital Project	<u>38,584,597</u>	-	<u>38,584,597</u>
Property, equipment and leasehold improvements, at cost, net	<u>70,325,130</u>	<u>9,295,000</u>	<u>79,620,130</u>
	<u>\$ 196,634,585</u>	<u>\$ 9,363,026</u>	<u>\$ 205,997,611</u>
LIABILITIES AND NETASSETS			
Current Liabilities			
Accounts payable and accrued expenses	\$ 643,355	\$ -	\$ 643,355
Contracts payable	<u>7,707,212</u>	-	<u>7,707,212</u>
Total Current Liabilities	8,350,567	-	8,350,567
Long-term debt, net	<u>5,395,795</u>	<u>9,317,700</u>	<u>14,713,495</u>
Total Liabilities	<u>13,746,362</u>	<u>9,317,700</u>	<u>23,064,062</u>
Net Assets			
Without Donor Restrictions			
Undesignated	86,533,434	45,326	86,578,760
Board designated endowment	<u>10,465,037</u>	-	<u>10,465,037</u>
Total Without Donor Restrictions	<u>96,998,471</u>	<u>45,326</u>	<u>97,043,797</u>
With Donor Restrictions			
Purpose and time	49,362,978	-	49,362,978
Endowment	<u>36,526,774</u>	-	<u>36,526,774</u>
Total With Donor Restrictions	<u>85,889,752</u>	-	<u>85,889,752</u>
Total Net Assets	<u>182,888,223</u>	<u>45,326</u>	<u>182,933,549</u>
	<u>\$ 196,634,585</u>	<u>\$ 9,363,026</u>	<u>\$ 205,997,611</u>

See independent auditors' report

The Studio Museum in Harlem and Subsidiary

Consolidating Schedule of Activities Year Ended June 30, 2022

	The Studio Museum in Harlem			SMH Support Corp.		Consolidated		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminating Entry	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE								
Support								
Government	\$ 11,848,528	\$ -	\$ 11,848,528	\$ -	\$ -	\$ 11,848,528	\$ -	\$ 11,848,528
SBA PPP loan forgiveness	960,590	-	960,590	-	-	960,590	-	960,590
Contributions	5,956,928	35,723,893	41,680,821	-	-	5,956,928	35,723,893	41,680,821
Total Support	<u>18,766,046</u>	<u>35,723,893</u>	<u>54,489,939</u>	<u>-</u>	<u>-</u>	<u>18,766,046</u>	<u>35,723,893</u>	<u>54,489,939</u>
Revenue								
Special events, net of direct benefits to donors of \$157,326	3,314,557	-	3,314,557	-	-	3,314,557	-	3,314,557
Membership fees	243,353	-	243,353	-	-	243,353	-	243,353
Museum sales	188,567	-	188,567	-	-	188,567	-	188,567
Investment return	(1,718,179)	(4,395,228)	(6,113,407)	15	-	(1,718,164)	(4,395,228)	(6,113,392)
Other	174,651	-	174,651	108,500	(104,000)	179,151	-	179,151
Total Revenue	<u>2,202,949</u>	<u>(4,395,228)</u>	<u>(2,192,279)</u>	<u>108,515</u>	<u>(104,000)</u>	<u>2,207,464</u>	<u>(4,395,228)</u>	<u>(2,187,764)</u>
Total Support and Revenue before Net Assets Released from Restrictions	20,968,995	31,328,665	52,297,660	108,515	(104,000)	20,973,510	31,328,665	52,302,175
Net assets released from restrictions	<u>23,868,961</u>	<u>(23,868,961)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,868,961</u>	<u>(23,868,961)</u>	<u>-</u>
Total Support and Revenue	<u>44,837,956</u>	<u>7,459,704</u>	<u>52,297,660</u>	<u>108,515</u>	<u>(104,000)</u>	<u>44,842,471</u>	<u>7,459,704</u>	<u>52,302,175</u>
EXPENSES								
Program Services								
Curatorial	2,215,829	-	2,215,829	-	-	2,215,829	-	2,215,829
Exhibitions	570,151	-	570,151	-	-	570,151	-	570,151
Learning and Engagement	1,237,175	-	1,237,175	-	-	1,237,175	-	1,237,175
Retail and Visitor Services	393,807	-	393,807	-	-	393,807	-	393,807
Communications	657,596	-	657,596	-	-	657,596	-	657,596
Building operations	315,002	-	315,002	-	-	315,002	-	315,002
Capital campaign	2,816,072	-	2,816,072	-	(104,000)	2,712,072	-	2,712,072
Total Program Services	<u>8,205,632</u>	<u>-</u>	<u>8,205,632</u>	<u>-</u>	<u>(104,000)</u>	<u>8,101,632</u>	<u>-</u>	<u>8,101,632</u>
Supporting Services								
Management and general	3,805,194	-	3,805,194	18,200	-	3,823,394	-	3,823,394
Development	2,510,664	-	2,510,664	-	-	2,510,664	-	2,510,664
Total Supporting Services	<u>6,315,858</u>	<u>-</u>	<u>6,315,858</u>	<u>18,200</u>	<u>-</u>	<u>6,334,058</u>	<u>-</u>	<u>6,334,058</u>
Total Expenses	<u>14,521,490</u>	<u>-</u>	<u>14,521,490</u>	<u>18,200</u>	<u>(104,000)</u>	<u>14,435,690</u>	<u>-</u>	<u>14,435,690</u>
Change in Net Assets	<u>30,316,466</u>	<u>7,459,704</u>	<u>37,776,170</u>	<u>90,315</u>	<u>-</u>	<u>30,406,781</u>	<u>7,459,704</u>	<u>37,866,485</u>
NET ASSETS								
Beginning of year	64,121,496	80,990,557	145,112,053	(44,989)	-	64,076,507	80,990,557	145,067,064
Net assets reclassification	2,560,509	(2,560,509)	-	-	-	2,560,509	(2,560,509)	-
Beginning of year, restated	<u>66,682,005</u>	<u>78,430,048</u>	<u>145,112,053</u>	<u>(44,989)</u>	<u>-</u>	<u>66,637,016</u>	<u>78,430,048</u>	<u>145,067,064</u>
End of year	<u>\$ 96,998,471</u>	<u>\$ 85,889,752</u>	<u>\$ 182,888,223</u>	<u>\$ 45,326</u>	<u>\$ -</u>	<u>\$ 97,043,797</u>	<u>\$ 85,889,752</u>	<u>\$ 182,933,549</u>

See independent auditors' report