

OZ ARTS, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Oz Arts, Inc.  
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of OZ Arts, Inc. (the "Organization") which comprise the statement of financial position as of December 31, 2017, the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OZ Arts, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Yngst CPAs PLLC*

Nashville, Tennessee  
January 10, 2019

OZ ARTS, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS

Cash	\$ 117,204	\$ 61,120
Accounts receivable	1,269	103
Due from OZ Events, Inc.	74,237	38,940
Property and equipment, net	42,480	54,680
Other assets - artwork	<u>2,000</u>	<u>2,000</u>
TOTAL ASSETS	<u>\$ 237,190</u>	<u>\$ 186,736</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 109,357	\$ 55,405
Accrued payroll	18,327	28,849
Deferred revenue	4,894	-
Due to TAO	24,428	43,243
Due to Cano Ozgener	<u>2,260,000</u>	<u>1,087,500</u>
TOTAL LIABILITIES	<u>2,417,006</u>	<u>1,214,997</u>

NET ASSETS

Unrestricted:

Invested in property and equipment	42,480	54,680
Undesignated (deficit)	<u>(2,222,296)</u>	<u>(1,082,941)</u>
TOTAL NET ASSETS	<u>(2,179,816)</u>	<u>(1,028,261)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 237,190</u>	<u>\$ 186,736</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF ACTIVITIES

DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Season ticket memberships	\$ 76,650	\$ -	\$ 76,650
Single and group ticket sales	156,117	-	156,117
Public support:			
Grants	48,875	-	48,875
Contributions	231,452	1,000	232,452
Fundraising events	154,057	-	154,057
Donated goods and services	13,352	-	13,352
In-kind revenue	120,000	-	120,000
Miscellaneous	2,290	-	2,290
Net assets released from restrictions	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>803,793</u>	 <u>-</u>	 <u>803,793</u>
 EXPENSES			
Program services	1,324,093	-	1,324,093
Supporting services:			
Management and general	338,720	-	338,720
Fundraising	<u>292,535</u>	<u>-</u>	<u>292,535</u>
 TOTAL EXPENSES	 <u>1,955,348</u>	 <u>-</u>	 <u>1,955,348</u>
 CHANGE IN NET ASSETS	 (1,151,555)	 -	 (1,151,555)
 NET ASSETS (DEFICIT) - BEGINNING OF YEAR	 <u>(1,028,261)</u>	 <u>-</u>	 <u>(1,028,261)</u>
 NET ASSETS (DEFICIT) - END OF YEAR	 <u>\$ (2,179,816)</u>	 <u>\$ -</u>	 <u>\$ (2,179,816)</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2017

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 275,289	\$ 134,708	\$ 152,101	\$ 286,809	\$ 562,098
Payroll taxes and benefits	41,178	20,156	22,754	42,910	84,088
Contract labor	147,470	-	-	-	147,470
Theatre and production costs	405,119	-	-	-	405,119
Professional and contract services	86,438	73,664	27,084	100,748	187,186
Education outreach	2,799	-	-	-	2,799
Advertising	162,703	-	2,000	2,000	164,703
Printing and postage	5,852	7,636	1,945	9,581	15,433
Supplies	2,323	5,514	34,876	40,390	42,713
Rent and occupancy costs	144,208	30,902	30,902	61,804	206,012
Equipment and maintenance	5,591	1,282	-	1,282	6,873
Events	-	-	2,950	2,950	2,950
Travel	27,389	12,821	-	12,821	40,210
Insurance	-	8,555	-	8,555	8,555
Depreciation	6,732	6,058	673	6,731	13,463
Miscellaneous	11,002	17,490	17,250	34,740	45,742
Interest and bank fees	-	19,934	-	19,934	19,934
TOTAL EXPENSES	<u>\$ 1,324,093</u>	<u>\$ 338,720</u>	<u>\$ 292,535</u>	<u>\$ 631,255</u>	<u>\$ 1,955,348</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF CASH FLOWS

DECEMBER 31, 2017

OPERATING ACTIVITIES

Change in net assets \$ (1,151,555)

Adjustments to reconcile change in net assets to net cash used in operating activities:

Depreciation 13,463

(Increase) decrease in:

Accounts receivable (1,166)

Due from OZ Events, Inc. (35,297)

Prepaid event expenses 29,893

Increase (decrease) in:

Accounts payable 53,952

Accrued payroll (10,522)

Deferred revenue 4,894

Due to TAO (18,815)

TOTAL ADJUSTMENTS 36,402

NET CASH USED IN OPERATING ACTIVITIES (1,115,153)

INVESTING ACTIVITIES

Purchase of property and equipment (1,263)

NET CASH USED IN INVESTING ACTIVITIES (1,263)

FINANCING ACTIVITIES

Increase in amount Due to Cano Ozgener 1,172,500

NET CASH PROVIDED BY FINANCING ACTIVITIES 1,172,500

INCREASE IN CASH 56,084

CASH - BEGINNING OF YEAR 61,120

CASH - END OF YEAR \$ 117,204

See accompanying notes to financial statements.



OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

OZ Arts, Inc. (the “Organization”) was incorporated in 2013 as a Tennessee not-for-profit corporation. As the newest 501(c)(3) contemporary arts institution in the midsouth region, OZ Arts’ particular style of programming has transformed the cultural landscape of Nashville using the venue’s dynamic flexibility. OZ Arts presents the work of leading artists from around the world, offering an intimate context for performing and visual art programs that challenge and inspire a diverse range of curious audiences.

OZ Arts is located in the former C.A.O. Cigar Warehouse owned by Nashville’s Ozgener family. Their generosity provided the seed money that breathed new life into the column-free, 10,000-square-foot space nestled amidst 28 acres of natural and artfully landscaped grounds in west Nashville.

Basis of Presentation

The accompanying financial statements present the financial position and change in net assets of the Organization on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested, and the income or specific portions thereof be used for operations.

The Organization has no temporarily or permanently restricted net assets at December 31, 2017.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Organization reports gifts of equipment or materials (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long - lived assets are placed in service.

Ticket sale revenues received prior to the year to which they apply are reported as deferred revenue. Such revenue is recognized and reported in the Statement of Activities in the year the production is performed.

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Organization if not donated. Such services are recognized at fair value as support and expense in the period the services are performed. No donated services were recorded year ended December 31, 2017.

Other individuals volunteer their time and perform a variety of tasks that assist the Organization with program services and fundraising events. No amounts have been reflected in the financial statements for these donated services since the volunteer's time does not meet the criteria for recognition under GAAP.

Cash

Cash consists principally of checking account balances.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of a reserve held for ticket sales by the service utilized by the Organization. No allowance for uncollectible amounts is provided based on management's estimate.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at fair market value in the period received. The Organization generally capitalizes property and equipment over \$500 with a useful life in excess of one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Computer and related equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	15 years
Office equipment	5 - 7 years

Advertising

The Organization's advertising costs are primarily expensed as incurred. Significant expenses incurred in preparation for the subsequent performance season are recorded as prepaid expenses and recognized in the year in which the correlative revenue is recognized. Advertising expense for the year ended December 31, 2017 totaled approximately \$165,000.

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

The Organization files U.S. federal Form 990 for organizations exempt from income tax.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

In addition to modern, flexible theatrical performances, OZ Arts serves as a catalyst for local creativity through two program series: TNT (Thursday Night Things) and The Artists' Lounge. TNT is a quarterly series of unexpected collaborations with Nashville-based artists from varying creative disciplines. OZ Arts' "Blank Slate" provides a platform onto which these artists can create, develop and present a one-time-only event that would traditionally not be seen in a visual art gallery or theatre. The Artists' Lounge is a free recurring monthly program that offers artists the opportunity to refine their original work in front of an audience.

Through community partnerships and education and outreach programs, including the signature program oz school days, OZ Arts connects artists to kids, families, and lifelong learners.

Supporting Services

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions," and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2017 and January 10, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2017:

Computers and related equipment	\$ 20,567
Furniture and fixtures	44,696
Leasehold improvements	3,465
Office equipment	<u>19,761</u>
	88,489
Less: accumulated depreciation	<u>(46,009)</u>
	<u>\$ 42,480</u>

NOTE 3 - DUE TO CANO OZGENER

The Organization began with an initial investment by its Board Chair and Founder, Cano Ozgener. From time to time, the Organization has continued to borrow cash for operations from Mr. Ozgener. At December 31, 2017, the Organization had an outstanding loan of \$2,260,000 payable to Mr. Ozgener. This loan does not bear interest and does not have a timeline for repayment.

In May 2018, Cano Ozgener forgave the loan to the Organization, which resulted in a contribution of \$2,535,000, which includes the balance due at December 31, 2017 and subsequent advances to the Organization. This contribution eliminated the Organization's undesignated net asset deficit.

NOTE 4 - LEASES

The Organization leases its facility rent-free from an organization owned by various members of the Ozgener family, TAO. There is no written lease document for this transaction. The Organization is responsible for building related costs, such as insurance, maintenance and other costs which are included in rent and occupancy costs on the Statement of Functional Expense. In-kind revenue and rent expense of \$120,000 was recognized in the Statement of Activities related to this lease.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

NOTE 5 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of contributions and grants. Contributions receivable consist of individual and corporate contribution pledges. Grant and other receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Contributions from the Ozgener family amounted to approximately 32% of total contribution revenue for the year ended December 31, 2017. As indicated in Note 3, the Organization has received significant operational and cash flow support from loans which have subsequently been forgiven and gifts from the Ozgener family. While the Organization is working to expand its base of revenue and support, the ability of the Organization to continue is dependent on the willingness and ability for the family to continue contributing necessary operating funds.

The Organization maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balances may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

NOTE 6 - RELATED PARTY TRANSACTIONS

As previously noted, the Organization has an outstanding loan with its Board Chair, Cano Ozgener at December 31, 2017, and also operates in a building leased rent-free from a company owned by various members of the Ozgener Family (TAO).

Oz Events, LLC, a partnership owned by the Organization's president and CEO and his mother, the wife of Cano Ozgener, provides event planning services in the space leased by the Organization from TAO. OZ Arts, Inc. and OZ Events, LLC utilize the same third-party service provider to staff bartenders and security, and from time to time, the entities have advances to or from each other relating to these activities. A portion of OZ Events, LLC's revenue is donated back to the Organization from these outside events.