

OZ ARTS, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2021

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AND
INDEPENDENT AUDITOR’S REPORT

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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 June 30, 2021, the related statements 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 from material misstatement.

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

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

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 June 30, 2021, 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.

Kraft CPA PLLC

Nashville, Tennessee
January 26, 2022

OZ ARTS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

ASSETS

Cash and cash equivalents	\$ 510,113
Contributions receivable	3,125
Grant receivable	59,616
Prepaid event expenses	24,712
Inventory	4,235
Other current assets	3,352
Property and equipment, net	<u>224,372</u>
TOTAL ASSETS	<u>\$ 829,525</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 79,472
Accrued payroll	42,731
Accrued expenses	17,858
Deferred revenue	<u>26,820</u>

TOTAL LIABILITIES	<u>166,881</u>
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NET ASSETS

Without donor restrictions:

Invested in property and equipment	224,372
Undesignated	425,772
With donor restrictions	<u>12,500</u>

TOTAL NET ASSETS	<u>662,644</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 829,525</u>
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See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Season ticket memberships	\$ 14,151	\$ -	\$ 14,151
Single and group ticket sales	42,940	-	42,940
Public support:			
Grants	438,640	66,000	504,640
Contributions	968,480	-	968,480
Fundraising events	50,805	-	50,805
Donated goods and services	123,335	-	123,335
Facility rental income	10,443	-	10,443
Interest income	27	-	27
Net assets released from restrictions	<u>93,000</u>	<u>(93,000)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,741,821</u>	<u>(27,000)</u>	<u>1,714,821</u>
EXPENSES			
Program services	732,306	-	732,306
Supporting services:			
Management and general	454,348	-	454,348
Fundraising	<u>300,713</u>	<u>-</u>	<u>300,713</u>
TOTAL EXPENSES	<u>1,487,367</u>	<u>-</u>	<u>1,487,367</u>
CHANGE IN NET ASSETS	254,454	(27,000)	227,454
NET ASSETS - BEGINNING OF YEAR	<u>395,690</u>	<u>39,500</u>	<u>435,190</u>
NET ASSETS - END OF YEAR	<u>\$ 650,144</u>	<u>\$ 12,500</u>	<u>\$ 662,644</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 363,573	\$ 160,308	\$ 163,294	\$ 323,602	\$ 687,175
Payroll taxes and benefits	77,099	34,526	35,168	69,694	146,793
Contract labor	17,588	48	195	243	17,831
Theatre and production costs	79,697	156	1,535	1,691	81,388
Professional and contract services	4,996	167,731	14,733	182,464	187,460
Advertising and promotion	13,724	2,730	1,500	4,230	17,954
Printing and postage	3,596	1,525	2,621	4,146	7,742
Supplies	4,565	166	4,848	5,014	9,579
Rent and occupancy costs	118,285	53,745	54,227	107,972	226,257
Equipment and maintenance	18,016	7,312	9,844	17,156	35,172
Travel	3,158	46	82	128	3,286
Insurance	6,089	2,904	2,959	5,863	11,952
Depreciation	18,693	8,916	9,083	17,999	36,692
Miscellaneous	2,990	8,462	542	9,004	11,994
Interest and bank fees	237	5,773	82	5,855	6,092
TOTAL EXPENSES	<u>\$ 732,306</u>	<u>\$ 454,348</u>	<u>\$ 300,713</u>	<u>\$ 755,061</u>	<u>\$ 1,487,367</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2021

OPERATING ACTIVITIES

Change in net assets	\$ 227,454
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	36,692
Forgiveness of Paycheck Protection Program loan	(126,120)
(Increase) decrease in:	
Accounts receivable	4,821
Contributions receivable	57,375
Grant receivable	(12,885)
Prepaid event expenses	(18,463)
Inventory	(525)
Other current assets	(3,352)
Increase (decrease) in:	
Accounts payable	22,700
Accrued payroll	(32,369)
Accrued expenses	(299)
Deferred revenue	8,562
	<hr/>
TOTAL ADJUSTMENTS	(63,863)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	163,591

INVESTING ACTIVITIES

Purchase of property and equipment	(75,467)
	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(75,467)

FINANCING ACTIVITIES

Proceeds from Paycheck Protection Program loan	126,120
	<hr/>
NET CASH PROVIDED BY FINANCING ACTIVITIES	126,120

INCREASE IN CASH	214,244
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	295,869
	<hr/>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 510,113

See accompanying notes to financial statements.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

OZ Arts, Inc. (the “Organization” or “Oz Arts”) 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 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 changes 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 net assets without donor restrictions and net assets with donor restrictions, based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There are no donor restrictions that are perpetual in nature. Net assets with donor restrictions at June 30, 2021, are temporary in nature and relate to a performance that occurred subsequent to year end, when restrictions were met.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give are received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Grants awarded by state and other sponsors are generally considered nonreciprocal transactions restricted by sponsors for certain purposes. Grant revenue is recognized when the conditions upon which it depends are substantially met, which primarily is when qualifying expenses occur. Payments received in advance of conditions being met are recorded as deferred revenue on the Statement of Financial Position.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Season membership tickets, single and group 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.

Rental income is recognized when the associated event occurs. Payments received in advance are recorded as deferred revenue.

Fundraising event revenue is generated from sponsorships, ticket sales and sale of auction items at events held during the year. Ticket sales and sale of auction items are recognized when the events occur, which is when the Organization completes its performance obligation. Event sponsorships are recognized when promised and donor restricted as necessary.

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, were 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.

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.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consists principally of checking account balances and money market accounts held at financial institutions.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management's opinion, no allowance for uncollectible contributions was necessary as of June 30, 2021.

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:

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

Advertising and Promotion

The Organization's advertising and promotion costs are primarily expensed as incurred. Advertising and promotion expense for the period ended June 30, 2021 totaled approximately \$18,000.

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.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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.

Program and Supporting Services

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

Program Services

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 also serves as a catalyst for local creativity by supporting Nashville-based artists in unexpected, cross-disciplinary collaborations. Presented alongside some of the most acclaimed artists in the world, several local artists are offered a "blank slate" onto which they can create and develop original work, highlighting the incredible talent within our own city.

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.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Costs that are allocated across functional categories include salaries and related costs, printing and postage, supplies, rent and occupancy costs, equipment and maintenance, depreciation and miscellaneous expenses. These costs are allocated based on estimates of time and effort.

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 September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the Statement of Activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for fiscal years beginning after June 15, 2021. The adoption of ASU 2020-07 is not expected to have a significant impact on the Organization's 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 Statement of Financial Position 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 Statement of Activities. As a result of ASU 2020-05, the standard will now be effective for fiscal years beginning after December 15, 2021. 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)

JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2021 and January 26, 2022, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, comprise the following as of June 30, 2021:

Cash and cash equivalents	\$ 510,113
Contributions receivable	3,125
Grant receivable	<u>59,616</u>
Total financial assets	<u>572,854</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions:	
Restricted for specific purposes	<u>12,500</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 560,354</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2021:

Computers and related equipment	\$ 34,391
Furniture and fixtures	276,284
Leasehold improvements	16,365
Office equipment	<u>36,822</u>
	363,862
Less: accumulated depreciation	<u>(139,490)</u>
	<u>\$ 224,372</u>

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 4 - PAYCHECK PROTECTION PROGRAM LOAN

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act provided an economic relief package to many businesses in the United States as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act established the Paycheck Protection Program ("PPP"), which was implemented by the Small Business Administration, and was intended to provide small business (generally those with 500 or less employees) with funds in amounts up to 2.5 times the business's average monthly payroll expenses to pay for eligible expenses, including payroll, benefits, rent and utilities. The funds were available in the form of a loan. The loan is fully forgivable if at least 60% of the funds are used for payroll costs, and if certain other terms are met. Any unforgiven funds will convert to a note with a 1% interest rate and payable over 24 months.

On April 19, 2020, the Organization received \$99,300 from a PPP loan. Based on management's preliminary estimation of the forgiveness calculation, the full amount of the loan was recognized and included as grant revenue as of June 30, 2020, as the forgiveness conditions were substantially met. On December 20, 2021, the Organization received notification the Paycheck Protection Program loan had been fully forgiven.

The Organization received an additional PPP loan due to expansion of the CARES Act in the amount of \$126,120 on January 28, 2021. The second PPP loan had substantially the same terms noted above. Based on management's preliminary estimation of the forgiveness calculation, the full amount of the loan has been recognized and included as grant revenue as of June 30, 2021, as the forgiveness conditions were substantially met. On December 20, 2021, the Organization received notification the PPP loan had been fully forgiven.

NOTE 5 - LEASES

In January 2018, the Organization entered into a lease for its facility from an organization owned by various members of the Ozgener family, TAO. The lease calls for monthly rental payments of \$10,000 per month through December 2022. The lease has extension options for two additional five-year periods. 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 Expenses. Lease payments have been forgiven by the lessor on a monthly basis. As a result, in-kind revenue and rent expense of \$120,000 was recognized in the Statement of Activities related to this lease.

Lease payments due under the terms of the lease are as follows as of June 30, 2021:

Year ended June 30,

2022	\$ 120,000
2023	<u>60,000</u>
	<u>\$ 180,000</u>

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021

NOTE 6 - CONCENTRATIONS

The Organization received significant operational and cash flow support from in the form of contributions from the Ozgener family amounting to approximately 79% of total contribution revenue for the year ending June 30, 2021. These contributions represent critical support for the Organization as it diligently works to expand its base of revenue and support from the general public. The ability of the Organization to continue is dependent on the willingness and ability for the family to continue contributing necessary operating funds. The family intends to continue this support.

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 7 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. The Organization has experienced loss of revenues for live, in person performances. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, the Organization’s leadership team continues to evaluate the evolving situation and will implement appropriate countermeasures as needed.