

OZ ARTS, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019

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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, 2019, the related statements of activities, functional expenses and cash flows for the eighteen month period from January 1, 2018 through June 30, 2019, 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 June 30, 2019, and the changes in its net assets and its cash flows for the eighteen month period from January 1, 2018 through June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Yon H CPAs PLLC

Nashville, Tennessee
November 25, 2019

OZ ARTS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

ASSETS

Cash and cash equivalents	\$ 382,247
Accounts receivable	2,891
Contributions receivable	140,750
Prepaid event expenses	13,609
Property and equipment, net	<u>88,297</u>
TOTAL ASSETS	<u>\$ 627,794</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable	\$ 58,866
Accrued payroll	29,780
Deferred revenue	57,378
Due to TAO	<u>30,140</u>
TOTAL LIABILITIES	<u>176,164</u>
NET ASSETS	
Without donor restrictions:	
Invested in property and equipment	88,297
Undesignated	<u>363,333</u>
TOTAL NET ASSETS	<u>451,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 627,794</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2019

SUPPORT AND REVENUE

Season ticket memberships	\$ 48,243
Single and group ticket sales	152,697
Public support:	
Grants	116,528
Contributions	4,765,792
Fundraising events	211,072
Donated goods and services	2,511
In-kind revenue	180,000
Facility rental income	146,137
Miscellaneous	8,442
Interest income	<u>2,647</u>
 TOTAL SUPPORT AND REVENUE	 <u>5,634,069</u>

EXPENSES

Program services	1,862,376
Supporting services:	
Management and general	712,238
Fundraising	<u>428,009</u>
 TOTAL EXPENSES	 <u>3,002,623</u>

CHANGE IN NET ASSETS	2,631,446
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>(2,179,816)</u>
NET ASSETS - END OF YEAR	<u>\$ 451,630</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2019

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 408,986	\$ 199,220	\$ 224,942	\$ 424,162	\$ 833,148
Payroll taxes and benefits	84,563	28,729	4,768	33,497	118,060
Contract labor	215,154	-	-	-	215,154
Theatre and production costs	499,044	-	-	-	499,044
Professional and contract services	38,500	276,181	86,696	362,877	401,377
Education outreach	2,991	-	-	-	2,991
Advertising and promotion	190,688	-	2,519	2,519	193,207
Printing and postage	7,032	16,923	4,239	21,162	28,194
Supplies	1,521	9,500	45,304	54,804	56,325
Rent and occupancy costs	322,874	60,909	22,274	83,183	406,057
Equipment and maintenance	14,534	5,868	-	5,868	20,402
Events	-	-	9,136	9,136	9,136
Travel	53,925	42,777	-	42,777	96,702
Insurance	6,244	5,619	624	6,243	12,487
Depreciation	11,216	9,196	24	9,220	20,436
Miscellaneous	5,104	31,694	27,483	59,177	64,281
Interest and bank fees	-	25,622	-	25,622	25,622
TOTAL EXPENSES	<u>\$ 1,862,376</u>	<u>\$ 712,238</u>	<u>\$ 428,009</u>	<u>\$ 1,140,247</u>	<u>\$ 3,002,623</u>

See accompanying notes to financial statements.

OZ ARTS, INC.

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2019

OPERATING ACTIVITIES

Change in net assets	<u>\$ 2,631,446</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Forgiveness of amount due to Cano Ozgener	(2,535,000)
Depreciation	20,436
(Increase) decrease in:	
Accounts receivable	(1,622)
Contributions receivable	(140,750)
Due from OZ Events, Inc.	74,237
Prepaid event expenses	(13,609)
Increase (decrease) in:	
Accounts payable	(50,491)
Accrued payroll	11,453
Deferred revenue	52,484
Due to TAO	<u>5,712</u>

TOTAL ADJUSTMENTS (2,577,150)

NET CASH PROVIDED BY OPERATING ACTIVITIES 54,296

INVESTING ACTIVITIES

Purchase of property and equipment (64,253)

NET CASH USED IN INVESTING ACTIVITIES (64,253)

FINANCING ACTIVITIES

Increase in amount due to Cano Ozgener 275,000

NET CASH PROVIDED BY FINANCING ACTIVITIES 275,000

INCREASE IN CASH 265,043

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 117,204

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 382,247

See accompanying notes to financial statements.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 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.

The Organization has changed its year-end from December to June to better align with its performance season. As a result, these financial statements represent an eighteen month period from January 1, 2018 through June 30, 2019.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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 assets with donor restrictions at June 30, 2019.

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, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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.

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, 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. No donated services were recorded during the period ended June 30, 2019.

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 and Cash Equivalents

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

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of balances due to the Organization for various purposes. No allowance for uncollectible amounts is provided based on management's estimate as of June 30, 2019.

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 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. There is no allowance for uncollectible contributions as of June 30, 2019 based on management's estimate.

Contributions receivable were all due within one year as of June 30, 2019.

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, 2019 totaled approximately \$193,000.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

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. 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.

Adoption of New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued 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. In October 2019, the FASB voted to delay the effective date of the standard to fiscal years beginning after December 15, 2020, 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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2019 and November 12, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

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, 2019:

Cash	\$ 382,247
Accounts receivable	2,891
Contributions receivable	<u>140,750</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 525,888</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019:

Computers and related equipment	\$ 34,371
Furniture and fixtures	107,903
Leasehold improvements	3,465
Office equipment	<u>21,573</u>
	167,312
Less: accumulated depreciation	<u>(79,015)</u>
	<u>\$ 88,297</u>

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 \$180,000 was recognized in the Statement of Activities related to this lease.

OZ ARTS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019

NOTE 5 - CONCENTRATIONS

The Organization received significant operational and cash flow support from a loan originating in 2016 and forgiven in May 2018 with a balance at the time of forgiveness of \$2,535,000. This amount has been recognized as contribution revenue during the eighteen month period ending June 30, 2019. This, along with other contributions from the Ozgener family amounted to approximately 87% of total contribution revenue for the eighteen month period ending June 30, 2019. 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.

At June 30, 2019, approximately 60 percent of contributions receivable were from two corporate donors.

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

The Organization has an outstanding payable to a company owned by several members of the Ozgener family, TAO. The balance at June 30, 2019 was \$30,140. As discussed in Note 4, the Organization leases the facility rent-free from TAO and is responsible for certain building-related costs.