

SMOKESTACK THEATRE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2023

CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS	
Statement of financial position	2
Statement of activities	3
Statement of functional expenses	4
Statement of cash flows	5
Notes to financial statements	6-12

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Trustees
Smokestack Theatre Company
Danville, Virginia

We have reviewed the accompanying financial statements of Smokestack Theatre Company (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Smokestack Theatre Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Harris Harvey Neal & Co. LLP

Danville, Virginia
April 7, 2024

SMOKESTACK THEATRE COMPANY
STATEMENT OF FINANCIAL POSITION
December 31, 2023
See Independent Accountants' Report

	December 31, <u>2023</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 35,976
Accounts receivable	1,594
Prepaid expenses	2,777
Inventory	<u>6,288</u>
Total current assets	<u>46,635</u>
OTHER ASSETS	
Property and equipment (net)	<u>31,271</u>
RIGHT OF USE ASSET	
	<u>71,947</u>
Total assets	<u><u>\$ 149,853</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 555
Deferred revenue	36,282
Current portion of lease liabilities-operating	<u>23,557</u>
Total current liabilities	<u>60,394</u>
LONG-TERM LIABILITIES	
Lease liabilities-operating, less current portion	<u>49,703</u>
Deferred grants revenue	<u>-</u>
Total liabilities	11,097
NET ASSETS	
Without donor restrictions	39,756
With donor restrictions	<u>-</u>
Total net assets	<u>39,756</u>
Total liabilities and net assets	<u><u>\$ 160,950</u></u>

The accompanying notes are an integral part of the financial statements.

SMOKESTACK THEATRE COMPANY

STATEMENT OF ACTIVITIES
 Year Ended December 31, 2023
 See Independent Accountants' Report

	Year Ended December 31, 2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support:			
Contributions	\$ 13,678	\$ -	\$ 13,678
Grant income	34,537	-	34,537
Sponsorships	27,690	-	27,690
Admissions and performance fees	31,882	-	31,882
Concessions and merchandise income	7,381	-	7,381
Rental fees	1,789	-	1,789
Net assets released from restrictions	10	-	10
Total revenues and support	<u>116,967</u>	<u>-</u>	<u>116,967</u>
Expenses:			
Program services	<u>85,920</u>	<u>-</u>	<u>85,920</u>
Supporting services:			
Management and general	16,374	-	16,374
Fundraising	3,808	-	3,808
Total supporting services	<u>20,182</u>	<u>-</u>	<u>20,182</u>
Total expenses	<u>106,102</u>	<u>-</u>	<u>106,102</u>
Change in net assets	10,865	-	10,865
Net assets, beginning	28,891	-	28,891
Net assets, ending	<u>\$ 39,756</u>	<u>\$ -</u>	<u>\$ 39,756</u>

The accompanying notes are an integral part of the financial statements.

SMOKESTACK THEATRE COMPANY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2023

See Independent Auditors' Report

	Year Ended December 31, 2023			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Outside services and consultants	\$ 19,255	\$ 4,820	\$ -	\$ 24,075
Physical production	39,421	-	-	39,421
Lease expense	16,965	7,271	-	24,235
Fundraising	-	-	3,808	3,808
Insurance	-	926	-	926
Office supplies	-	921	-	921
Professional fees	-	151	-	151
Utilities	3,904	1,673	-	5,577
Marketing and events costs	3,925	-	-	3,925
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	83,470	15,762	3,808	103,040
Depreciation	2,450	612	-	3,062
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 85,920</u>	<u>\$ 16,374</u>	<u>\$ 3,808</u>	<u>\$ 106,102</u>

The accompanying notes are an integral part of the financial statements.

SMOKESTACK THEATRE COMPANY

STATEMENT OF CASH FLOWS

Year Ended December 31, 2023

See Independent Auditors' Report

	Year Ended December 31, <u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 10,865
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,062
Amortization of right-of-use assets-operating	1,313
(Increase) in accounts receivable	(1,594)
(Increase) in prepaid expenses	(2,777)
(Increase) in inventory	(37)
Increase in accounts payable	555
Increase in deferred revenue	36,282
	47,669
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(15,045)
	(15,045)
Net increase in cash and cash equivalents	32,624
Cash and cash equivalents:	
Beginning	3,352
Ending	\$ 35,976
SUPPLEMENTAL DISCLOSURES	
Schedule of non-cash investing transactions:	
Cash paid for interest	\$ -

The accompanying notes are an integral part of the financial statements.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of activities:

Smokestack Theatre Company (the “Organization”) is a nonprofit corporation formed in 2018, for the purpose of creating quality, exciting, and transformative theatre for the cultural enrichment of the Danville, Pittsylvania County, Virginia and the surrounding region.

Accounts and grants receivable:

Accounts receivable represent the amount receivable for corporate sponsorships. When accounts and grants are deemed uncollectible, they are charged against the allowance for doubtful accounts. Management considers all accounts, if any, to be collectible and, accordingly, has not provided an allowance for uncollectible accounts.

Income tax status:

The Organization is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

As of February 5, 2019, the Organization was approved by the IRS to be classified as a 509(a)(1) supported charity under Section 170(b)(1)(A)(vi).

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation:

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity.

Net assets without donor restrictions are resources available to support operations and are not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

The Organization's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Cash and cash equivalents:

Cash and cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less.

Revenue recognition:

The Organization accounts for contributions in accordance with the recommendations of authoritative U. S. accounting and reporting standards under which the Organization is required to record contributions received as with or without restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a 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. When the restriction expires in the same year the contribution is received, it is the policy of the Organization to report the contribution as without donor restricted support.

Contributions of cash or other assets are recognized when the cash is received or when ownership of donated assets is transferred to the Organization. Donated assets are recorded at their estimated fair values on the date of donation. Unconditional promises to give are recorded as made. Contributed support is with or without restrictions depending upon the existence of donor restrictions that limit the use of the support.

Revenue from Contracts with Customers - The Organization accounts for admissions and subscriptions income, rental fee income, education income, concession and merchandise income as exchange transactions in the statements of activities. Revenue from contracts with customers is treated as revenues without donor restrictions. Funds received in advance from customers for services that have not been performed have been recorded as contract liabilities and recorded as advance admissions and subscriptions in the statements of financial position.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Contributed services:

Contributed services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Property and equipment:

Property and equipment acquisitions are recorded at cost or fair value when received. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor restrictions regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Leases:

The Organization categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Organization to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded on the statements of financial position. The Organization had no finance leases during 2023.

Lease liabilities are recognized at the present value of the fixed lease payments, using a discount rate based on the risk-free rate. Right-of-use ("ROU") assets are recognized based on the initial present value of the fixed lease payments plus any costs from executing the lease. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Presentation of sales tax:

The Commonwealth of Virginia imposes a sales tax of 5.3% for 2023 on all of the Organization's sales to nonexempt customers. The Organization collects the sales tax from the customers and remits the entire amount to the state. The Organization's accounting policy is to include the tax collected and remitted to the Commonwealth with the revenues and costs of sales.

Functional allocation of expenses:

The cost of providing Organization programs and the administration of the Organization has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program services, general and administrative, and fundraising.

Advertising:

Advertising costs are expensed when incurred.

Inventory:

Inventory is stated at moving average cost.

Use of estimates:

The preparation of financial statements in accordance with U.S. 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 these estimates.

New Accounting Pronouncements Adopted in the Current Year

In February 2016, the Financial Accounting Standards Board issued an Accounting Standards Update amending the accounting for leases. The Organization adopted the new standard on January 1, 2023, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the Organization utilized the practical expedient available under the guidance. Further, the Organization elected to implement the package of practical expedients, whereby the Organization did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs. Upon adoption, the Organization recognized \$71,947 in right-of-use ("ROU") assets related to its leased property. Corresponding lease liabilities of \$73,260 were also recognized in the statements of financial position.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Net assets without donor restrictions:

Net assets without donor restrictions are not subject to donor-imposed stipulations. Support and revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions or by law. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Net assets without donor restrictions are divided into two categories:

Operating funds are funds with neither donor-imposed restrictions nor board or management-imposed limitations on use.

Designated funds, if any, are funds on which the Board of Directors or management has placed purpose or time-related spending limitations.

Net assets with donor restrictions:

Net assets with donor restrictions are subject to donor-imposed stipulations restricting their use. These stipulations may limit use to a particular purpose or until after the passage of a specified period of time, or both. A time limitation may also be implied by the nature of the gift, or by interpretations of law

Net assets with donor restrictions include gifts, unconditional promises to give (pledges), if any, and income which can be expended but for which a restriction has not yet been met. Expirations of such restrictions, that is, the donor-imposed purpose having been accomplished and/or the stipulated time period having elapsed, are reported as net assets released from restrictions between the applicable classes of net assets.

Net assets with donor restrictions also include the historical dollar amount of gifts (including unconditional promises to give, if any).

Deferred revenue:

Deferred revenue is primarily grant and sponsorship funds received for the year ending December 31, 2024.

SMOKESTACK THEATRE COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 2. Property and Equipment

Major classes of property and equipment consist of the following at December 31, 2023:

Furniture and equipment	\$ 27,833
Leasehold improvements	<u>6,500</u>
	34,333
Less: accumulated depreciation	<u>3,062</u>
	<u><u>\$ 31,271</u></u>

For the year ended December 31, 2023, depreciation expense totaled \$3,062.

Note 3. Net Assets

The amounts included as net assets as of December 31, 2023, consist of the following:

Amounts held for future operations	\$ 8,485
Investment in land, buildings, and equipment	<u>31,271</u>
Without donor restrictions	<u><u>\$ 39,756</u></u>

Note 4. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of such date.

	<u>2023</u>
Financial assets, at year end:	
Cash and cash equivalents without restrictions	\$ 35,976
Accounts receivable within one year	<u>1,594</u>
Financial assets available to meet cash needs for general expenditure within one year	<u><u>\$ 37,570</u></u>

Note 5. Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes, professional services, and postage, which are allocated on the basis of estimates of time and effort.

SMOKESTACK THEATRE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 6. Leases

As disclosed in Note 1, the Board adopted FASB ASC 842 as of January 1, 2023. As of December 31, 2023, the Organization had two operating leases and zero finance leases.

Additional information about the Organization's leases is as follows:

Lease expense	2023
Finance lease expense	
Amortization of ROU assets	0.00
Interest on lease liabilities	0.00
Operating lease expense	24,235
Short-term lease expense *	
Variable lease expense	0.00
Sublease income *	
Total	24,235
 Other Information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	21,370
ROU assets obtained in exchange for new operating lease liabilities	91,715
Weighted-average remaining lease term in years for operating leases	2.94
Weighted-average discount rate for operating leases	3.92%
 Maturity Analysis	
	Operating
2024-12	25,926
2025-12	26,772
2026-12	21,661
2027-12	3,161
2028-12	-
Thereafter	-
Total undiscounted cash flows	77,520
Less: present value discount	(4,260)
Total lease liabilities	73,260

Note 7. Subsequent Events

Management has evaluated subsequent events through April 7, 2024, the date which the financial statements were available for issue.