

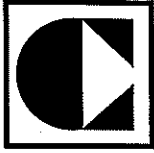
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

ENCORE STAGE & STUDIO, INC.

August 31, 2023
(with summarized financial information
for the year ended August 31, 2022)

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INDEPENDENT AUDITOR'S REPORT

To the Finance Committee
Encore Stage & Studio, Inc.

We have audited the accompanying financial statements of the Encore Stage & Studio, Inc. (a nonprofit organization), which comprise the balance sheet as of August 31, 2023, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Encore Stage & Studio, Inc. as of August 31, 2023, and the changes in its net assets and its functional expenses and cash flows for the year then ended in accordance with accounting standards generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of Encore Stage & Studio, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited Encore Stage & Studio, Inc.'s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2022, is consistent, in all material respects, with the audited financial statements from which it was derived.

Douglas Craig, & Associates, P.C.

Fairfax, Virginia
November 20, 2023

Encore Stage & Studio, Inc.
Statements of Financial Position
August 31, 2023 and 2022

(See Independent Auditor's Report and notes to financial statements)

	2023	2022
Assets		
Current Assets		
Cash	\$ 579,139	\$ 876,518
Accounts receivable	-	5,096
Prepaid expenses	<u>20,197</u>	<u>9,787</u>
Total current assets	599,336	891,401
Equipment, net of accumulated depreciation of \$5,039 and \$0	10,078	-
Investments	410,289	-
Deposit	<u>1,000</u>	<u>1,000</u>
	<u>\$ 1,020,703</u>	<u>\$ 892,401</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 6,147	\$ 13,562
Accrued payroll and payroll taxes	54,260	57,675
Deferred revenue	<u>98,918</u>	<u>117,418</u>
Total current liabilities	159,325	188,655
Net Assets		
Without Donor Restrictions	353,826	599,678
Board Designated	400,000	-
With Donor Restrictions	<u>107,552</u>	<u>104,068</u>
	<u>861,378</u>	<u>703,746</u>
	<u>\$ 1,020,703</u>	<u>\$ 892,401</u>

Encore Stage & Studio, Inc.
Statement of Activities
For the year ended August 31, 2023
Comparative Totals for 2022

(See Independent Auditor's Report and notes to financial statements)

	<u>Without Donor Restrictions</u>	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>2023 Total</u>	<u>2022 Total</u>
Revenue and Other Support:					
Tuition and fees	\$ 748,962	\$ -	\$ -	\$ 748,962	\$ 579,527
Tickets	132,271	-	-	132,271	64,436
Contributions	139,738	-	3,256	142,994	104,781
Grants	95,447	-	-	95,447	376,281
Interest	20,875	-	228	21,103	2,521
Other income related to productions	13,168	-	-	13,168	6,336
Realized gain (loss) on investment	(12,945)	-	-	(12,945)	-
Unrealized gain (loss) on investment	12,572	-	-	12,572	-
In-kind contribution of services	-	-	-	-	194,892
Net assets released from restriction:					
Satisfaction of program restrictions	-	-	-	-	-
	<u>1,150,088</u>	<u>-</u>	<u>3,484</u>	<u>1,153,572</u>	<u>1,328,774</u>
Expenses:					
Program services:					
Education	431,111	-	-	431,111	353,286
Productions	329,930	-	-	329,930	189,450
Total program services	<u>761,041</u>	<u>-</u>	<u>-</u>	<u>761,041</u>	<u>542,736</u>
Supporting services:					
Administration	158,993	-	-	158,993	328,709
Fundraising	75,906	-	-	75,906	72,848
Total supporting services	<u>234,899</u>	<u>-</u>	<u>-</u>	<u>234,899</u>	<u>401,557</u>
Total expenses	<u>995,940</u>	<u>-</u>	<u>-</u>	<u>995,940</u>	<u>944,293</u>
Change in net assets	154,148	-	3,484	157,632	384,481
Net assets, beginning of year	599,678	-	104,068	703,746	319,265
Board designated funds transfer	<u>(400,000)</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 353,826</u>	<u>\$ 400,000</u>	<u>\$ 107,552</u>	<u>\$ 861,378</u>	<u>\$ 703,746</u>

Encore Stage & Studio, Inc.

Statement of Functional Expenses

For the year ended August 31, 2023

Comparative Totals for 2022

(See Independent Auditor's Report and notes to financial statements)

	Program Services			Supporting Services			2022 Total Expenses
	Education	Productions	Total Program Services	Administrative	Fundraising	Total Supporting Services	
Payroll	\$ 165,032	\$ 127,911	\$ 292,943	\$ 59,608	\$ 58,861	\$ 118,469	\$ 411,412
Contractors and consultants	183,838	71,746	255,584	-	-	-	255,584
Supplies	11,654	25,173	36,827	4,508	1,157	5,665	42,492
Employee benefits	16,040	12,432	28,472	5,793	5,721	11,514	39,986
Rent	-	-	-	34,800	-	34,800	34,800
Payroll taxes	12,558	9,734	22,292	4,536	4,479	9,015	31,307
Surcharge	22,450	8,134	30,584	-	-	-	30,584
Credit card fees	403	29,537	29,940	-	-	-	29,940
Advertising	16,139	3,152	19,291	-	-	-	19,291
Professional fees	-	-	-	12,717	-	12,717	12,717
Storage	-	11,862	11,862	-	-	-	11,862
Insurance	-	-	-	9,689	-	9,689	9,689
Royalties	-	8,916	8,916	-	-	-	8,916
Building repairs and maintenance	-	-	-	8,124	-	8,124	8,124
Ticket sale fees	-	7,355	7,355	-	-	-	7,355
Shop rental	-	5,975	5,975	-	-	-	5,975
Depreciation	-	5,039	5,039	-	-	-	5,039
Dues and fees	-	-	-	4,379	623	5,002	5,002
Meals and catering	278	105	383	422	3,921	4,343	4,726
Business equipment	-	-	-	3,878	-	3,878	3,878
Telecommunications/website	-	-	-	3,668	-	3,668	3,668
Administrative fees	-	-	-	2,769	-	2,769	2,769
Rentals	1,550	1,208	2,758	-	-	-	2,758
Staff development	720	720	1,440	1,204	-	1,204	2,644
Printing	449	449	898	762	115	877	1,775
Postage	-	38	38	664	492	1,156	1,194
Board development	-	-	-	647	-	647	647
Fundraising - direct expenses	-	-	-	-	537	537	537
Business taxes	-	-	-	494	-	494	494
Travel and conferences	-	394	394	14	-	14	408
Condolence/celebration	-	50	50	317	-	317	367
	<u>\$ 431,111</u>	<u>\$ 329,930</u>	<u>\$ 761,041</u>	<u>\$ 158,993</u>	<u>\$ 75,906</u>	<u>\$ 234,899</u>	<u>\$ 995,940</u>
							<u>\$ 944,293</u>

Encore Stage & Studio, Inc.
Statements of Cash Flows
For the years ended August 31, 2023 and 2022
(See Independent Auditor's Report and notes to financial statements)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 157,632	\$ 384,481
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Realized (gain) loss on investment	12,945	-
Unrealized (gain) loss on investment	(12,572)	-
Depreciation	5,039	-
(Increase) decrease in accounts receivable	5,096	(5,046)
(Increase) decrease in prepaid expenses	(10,410)	(1,182)
(Increase) decrease in deposit	-	(1,000)
Increase (decrease) in accounts payable	(7,415)	9,647
Increase (decrease) in accrued payroll and payroll taxes	(3,415)	35,178
Increase (decrease) in grant advance	-	(19,312)
Increase (decrease) in deferred revenue	<u>(18,500)</u>	<u>671</u>
Net cash provided (used) by operating activities	128,400	403,437
Cash flows from investing activities:		
Purchase of production equipment	(15,117)	-
Purchase of investments	(413,431)	-
Proceeds from investment sales	<u>2,769</u>	<u>-</u>
Net cash provided (used) by investing activities	(425,779)	-
Cash flows from financing activities:		
Forgiveness of short-term loan	<u>-</u>	<u>(90,763)</u>
Net increase (decrease) in cash and cash equivalents	(297,379)	312,674
Cash, beginning of year	<u>876,518</u>	<u>563,844</u>
Cash, end of year	<u>\$ 579,139</u>	<u>\$ 876,518</u>
Supplemental disclosures:		
Summary of non-cash operating transactions:		
In-kind contributions of goods/supplies	\$ -	\$ 1,166
Supplies/professional fees	<u>-</u>	<u>193,726</u>
Net non-cash operating transactions	<u>\$ -</u>	<u>\$ 194,892</u>
Cash paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest expense	<u>\$ -</u>	<u>\$ -</u>

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note A - Nature of Organization

Encore Stage & Studio, Inc. (Encore) originally incorporated in 1966 as Children's Theatre of Arlington, is a non-profit educational theatre dedicated to providing professional quality theatrical experiences for young people, their families and the community in the metropolitan area. Through productions, featuring casts and technical crews aged 9-18, under the guidance of professional directors and designers, and through classes and workshops for ages 4-adult, staffed by educational and dramatic professionals, all aspects of theatre are explored. Encore Stage & Studio, Inc. is located in Arlington, Virginia and is operated by a volunteer Board of Directors. It serves the entire community with theatrical opportunities for children, teens and adults. Encore Stage & Studio, Inc.'s main sources of revenue include fees from educational programs and income from ticket sales.

Note B - Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Method of Accounting

Encore's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Consequently, revenues are recognized when earned and expenses are recognized when incurred.

2. Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions represent resources that are not subject to donor-imposed restrictions and are available for operations at management's discretion. During the year ended August 31, 2023, the board of directors designated \$400,000 from unrestricted cash to the Theatre for All fund. The Theatre for All fund has been established to ensure that children will continue to have access to the joy of the performing arts.

Net Assets With Donor Restrictions represent resources restricted by the donor as to purpose or by the passage of time.

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

3. Income Taxes

Income taxes are not provided for in the financial statements since Encore is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Encore follows the guidance of Accounting Standards Codification (ASC) 740, Accounting for Income Taxes, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There are no such uncertain tax positions for Encore for the years ended August 31, 2023 and 2022.

Encore's tax returns are subject to possible examination by taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

4. Equipment and Depreciation

Equipment is capitalized at cost at the date of acquisition. Donations of property and equipment are recorded as support at their estimated fair value at the date of the gift. The assets are depreciated on a straight-line basis over their estimated useful lives. Depreciation expense totaled \$5,039 for the year ended August 31, 2023.

5. Contributions

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Contributions with donor restrictions, such as time or purpose restrictions, are recorded as increases in net assets with donor restrictions. When donor-imposed time conditions expire or donor-imposed purpose restrictions are fulfilled, the amounts are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

6. Investments

Encore's investments consist of an investment in an agency fund. The agency fund is a fund established with the Arlington Community Foundation whereby Encore selects the investment pool and the Foundation manages it. The agency fund is exclusively used for Encore's benefit. The agency fund is recognized at fair value on the balance sheet.

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note B - Summary of Accounting Policies, continued

7. Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

8. Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

9. Advertising

Advertising costs are charged to expense as incurred. Encore's advertising costs totaled \$19,291 and \$7,391 for the years ended August 31, 2023 and 2022, respectively.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note C – Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 20, 2023, the date that the financial statements were available to be issued.

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note D—Liquidity and Availability of Financial Assets

Encore maintains a liquid cash balance in checking and savings accounts in an amount necessary to meet 90 days of operating expenses (approximately \$400,000). As part of its liquidity plan, excess cash is invested through the Arlington Community Foundation's donor advised funds.

Encore's financial assets available for general expenditures through August 31 2024 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 579,139
Less: amount designated by donor	<u>(107,552)</u>
Financial assets available for general expenditures within one year	<u>\$ 471,587</u>

Note E – Deferred Revenue

Deferred revenue on the accompanying financial statements reflects credits for future courses and performances. Deferred revenue totaled \$98,918 and \$117,418 as of August 31, 2023 and 2022, respectively. The balance of outstanding credits will be systematically written off based on estimates of redemption patterns.

Note F – Investments

The adjusted basis and fair value as of August 31, 2023 are as follows:

	Adjusted Basis	Fair Value	Unrealized Gains (Losses)
Agency fund	<u>\$ 397,717</u>	<u>\$ 410,289</u>	<u>\$ 12,572</u>

The Agency Fund is a fund managed by the Arlington Community Foundation. The fund is a pooled fund consisting short-term investments. The investment reported for Encore is their share of the total amount.

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note F – Investments, continued

Investment income for the year ended August 31, 2023 and 2022 consists of the following:

	2023	2022
Interest and dividends	\$21,103	\$2,521
Realized gain (loss) on investments	(12,945)	-
Unrealized gain (loss) on investments	<u>12,572</u>	<u>-</u>
Total investment income	<u>\$ 20,730</u>	<u>\$ 2,521</u>

Note G – Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at August 31, 2023:

<u>Description</u>	<u>Fair Value</u>	<u>Significant Observable Inputs (Level 1)</u>
Agency fund	<u>\$ 410,289</u>	<u>\$ 410,289</u>

The carrying amounts reflected in the balance sheet for cash, accounts receivable, and, accounts payable approximates fair value due to the short maturities of those instruments.

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note H – Operating Lease

On July 1, 2023, the Organization entered into an operating lease for office space. The lease term is one year.

Rent expense totaled \$34,800 and \$23,880 for the years ended August 31, 2023 and 2022, respectively.

Note I – Net Assets with Donor Restrictions

Temporarily restricted net assets are available for the following purpose:

	August 31, 2023	August 31, 2022
Theater for All	<u>\$107,552</u>	<u>\$104,068</u>

Note J - Contributed Assets and Services

Contributions of donated non-cash assets are recorded at their fair market value in the period received. For the year ended August 31, 2023, the Organization received no non-cash contributions. For the year ended August 31, 2022, the Organization received non-cash contributions of services totaling \$193,726 for a board development project and goods totaling \$1,166 consisting of travel and lodging.

Unpaid volunteers contribute their time to forward the Organization's program services. Those donated services do not meet the criteria for recognition as donated services under generally accepted accounting principles, therefore the value of this contributed time is not reflected in the accompanying financial statements.

Note K – Related Party Transactions

During the year ended August 31, 2023 contributions from board members totaled \$10,899 and comprised .94% of total support. During the year ended August 31, 2022 contributions from board members totaled \$10,297 and comprised .77% of total support

Encore Stage & Studio, Inc.
Notes to Financial Statements
August 31, 2023 and 2022
(See Independent Auditor's Report)

Note L – Retirement Plan

Encore maintains a SIMPLE IRA for all eligible employees. Under this plan, employees can elect to defer up to \$15,500 of their salary in calendar year 2023 and \$14,000 in calendar year 2022. Encore matches employee contributions up to 3% of salary. For the years ended August 31, 2023 and 2022, Encore's retirement expense totaled \$15,017 and \$9,326, respectively.

Note M - Covid-19/CARES Act

During the year ended August 31, 2022, Encore received Employee Retention Credit refunds totaling \$52,986. The refunds are reflected as grant revenue in the accompanying financial statements in accordance with ASC 958-605, as updated by FASB Accounting Standards Update (ASU) No.2018-08. All eligibility conditions to record revenue have been met.