



Montemayor Britton Bender Carey PC

CERTIFIED PUBLIC ACCOUNTANTS

**FILM SOCIETY OF AUSTIN, INC.
d.b.a. AUSTIN FILM SOCIETY
AND
FILM SOCIETY OF AUSTIN THEATER, LLC
d.b.a AFS CINEMA**

INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

31 AUGUST 2025



Montemayor Britton Bender Carey PC

CERTIFIED PUBLIC ACCOUNTANTS

Arturo Montemayor III CPA, President & CEO | Stacy Britton CPA, Shareholder | Sean Bender CPA, Shareholder
Danielle Guerrero, Shareholder | Sara Carey CPA, Shareholder

Board of Directors and Management
Film Society of Austin, Inc. d.b.a. Austin Film Society
and Film Society of Austin Theater, LLC d.b.a. AFS Cinema

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying consolidated financial statements of Film Society of Austin, Inc. d.b.a. Austin Film Society and Film Society of Austin Theater, LLC d.b.a. AFS Cinema (AFS), which comprise the consolidated statement of financial position as of 31 August 2025, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AFS as of 31 August 2025, 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.

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 Statements section of our report. We are required to be independent of AFS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 20 to the financial statements, certain errors resulted in the understatement of net assets without donor restrictions and an overstatement of net assets with donor restrictions as of 31 August 2024. Accordingly a prior period adjustment was recorded to correct these errors. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AFS's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 AFS'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AFS'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 AFS's 31 August 2024 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated 14 May 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended 31 August 2024, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Montemayor Britton Bender Carey PC

21 May 2026
Buda, Texas

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 AUGUST 2025**

ASSETS

	<u>2025</u>	Memorandum only <u>2024 restated</u>
Current assets		
Cash	\$3,999,072	\$5,024,585
Investments	791,310	671,113
Rent receivable	60,168	245,224
Local government contracts and grants receivable	353,789	275,515
Contributions and other receivables	523,187	551,967
Prepaid expenses and other	<u>119,874</u>	<u>89,309</u>
	5,847,400	6,857,713
Fixed assets	7,266,311	7,620,991
Right of use asset - operating lease	2,008,789	2,135,839
Restricted cash	60,000	60,000
Restricted investments	<u>196,677</u>	<u>196,677</u>
	<u>\$15,379,177</u>	<u>\$16,871,220</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$182,893	\$282,737
Security deposits	114,369	271,755
Deferred revenue	74,738	192,798
Accrued liabilities	132,424	94,885
Current portion of operating lease obligation	105,573	102,202
Current portion of long term debt	<u>52,086</u>	<u>51,041</u>
	662,083	995,418
Operating lease obligation, net of current portion	1,994,923	2,100,495
Long term debt, net of current portion	<u>1,863,412</u>	<u>1,915,517</u>
	<u>4,520,418</u>	<u>5,011,430</u>
Net assets		
Without donor restrictions		
Undesignated	10,302,663	10,589,233
Board designated	<u>299,419</u>	<u>285,034</u>
	10,602,082	10,874,267
With donor restrictions	<u>256,677</u>	<u>985,523</u>
	<u>10,858,759</u>	<u>11,859,790</u>
	<u>\$15,379,177</u>	<u>\$16,871,220</u>

The accompanying notes are an integral part of this financial statement presentation.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED 31 AUGUST 2025**

	2025			Memorandum Only
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2024 restated</u>
REVENUE				
Rental income	\$2,885,547	\$0	\$2,885,547	\$4,067,213
Contributions	1,087,377	322,063	1,409,440	1,978,523
Local government contracts and grants	1,035,794	0	1,035,794	1,022,024
Admissions	887,422	0	887,422	729,523
Concessions, net of cost of goods sold of \$137,375 and \$155,897	466,759	0	466,759	434,521
Memberships	307,209	0	307,209	265,033
Fees for services	137,965	0	137,965	137,349
Unrealized gain/(loss) on investments	56,537	45,160	101,697	132,971
Federal awards	70,000	0	70,000	90,000
Contributed goods and services	18,241	0	18,241	30,332
Other	177,915	0	177,915	85,946
Net assets released from restrictions	<u>1,096,069</u>	<u>(1,096,069)</u>	<u>0</u>	<u>0</u>
	<u>8,226,835</u>	<u>(728,846)</u>	<u>7,497,989</u>	<u>8,973,435</u>
EXPENSES				
Program				
AFS Cinema	2,651,565	0	2,651,565	2,507,171
Austin Studios	1,857,036	0	1,857,036	1,786,933
Access and Education	977,438	0	977,438	1,012,951
Artist Development	784,278	0	784,278	829,912
Texas Film Awards	<u>489,219</u>	<u>0</u>	<u>489,219</u>	<u>170,862</u>
	6,759,536	0	6,759,536	6,307,829
Administrative	1,195,605	0	1,195,605	1,036,137
Fundraising	<u>543,879</u>	<u>0</u>	<u>543,879</u>	<u>578,029</u>
	<u>8,499,020</u>	<u>0</u>	<u>8,499,020</u>	<u>7,921,995</u>
CHANGE IN NET ASSETS	(272,185)	(728,846)	(1,001,031)	1,051,440
BEGINNING NET ASSETS	<u>10,874,267</u>	<u>985,523</u>	<u>11,859,790</u>	<u>10,808,350</u>
ENDING NET ASSETS	<u>\$10,602,082</u>	<u>\$256,677</u>	<u>\$10,858,759</u>	<u>\$11,859,790</u>

The accompanying notes are an integral part of this financial statement presentation.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 AUGUST 2025**

	<u>2025</u>	Memorandum Only <u>2024 restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	(\$1,001,031)	\$1,051,440
Depreciation expense	527,072	516,759
Bad debt expense	53,369	0
Unrealized (gain)/loss on investments	(101,697)	(132,971)
Amortization of right of use asset	127,050	123,786
Change in rent receivable	131,687	(194,585)
Change in local government contracts and grants receivable	(78,274)	218,776
Change in contributions and other receivables	28,781	(551,967)
Change in prepaid expenses and other	(30,565)	14,711
Change in accounts payable	(99,844)	160,730
Change in security deposits	(157,386)	14,250
Change in deferred revenue	(118,060)	79,133
Change in accrued liabilities	37,539	(6,449)
Change in operating lease obligation	<u>(102,201)</u>	<u>(98,939)</u>
	<u>(783,560)</u>	<u>1,194,674</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(18,500)	(18,247)
Purchases of fixed assets	<u>(172,393)</u>	<u>(264,876)</u>
	<u>(190,893)</u>	<u>(283,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt principal	<u>(51,060)</u>	<u>(33,442)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	(1,025,513)	878,109
BEGINNING CASH AND RESTRICTED CASH	<u>5,084,585</u>	<u>4,206,476</u>
ENDING CASH AND RESTRICTED CASH	<u><u>\$4,059,072</u></u>	<u><u>\$5,084,585</u></u>

The accompanying notes are an integral part of this financial statement presentation.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED 31 AUGUST 2025**

Program Services

	Artist Development		Access & Education		Austin Studios		Texas Film Awards		Administrative	Fundraising	Total
Salaries & Fringe	\$ 225,753	\$ 1,334,069	\$ 723,360	\$ 554,020	\$ 160,466	\$ 860,126	\$ 411,101	\$ 4,268,895			
Program Expenses	32,199	440,145	90,798	22,562	256,124	54,429	60,357	956,614			
Maintenance & Repair	0	48,316	17,673	708,342	0	0	0	774,331			
Depreciation	0	37,955	0	489,117	0	0	0	527,072			
Rent	0	428,889	0	0	0	0	0	428,889			
Sponsored Projects	261,263	0	0	0	0	0	0	261,263			
Other	12	122,467	3,706	53,071	10,351	13,179	40,681	243,467			
Professional Fees	8,460	11,420	60,206	690	5,078	104,887	18,413	209,154			
Grants to Artists	208,500	0	0	0	0	0	0	208,500			
Network & Systems	6,143	56,927	498	0	0	106,200	0	169,768			
Travel	41,735	41,366	981	24,245	35,657	3,336	6,111	153,431			
Cost of goods sold	0	137,375	0	0	0	0	0	137,375			
Marketing & Publicity	213	70,788	1,680	4,989	21,543	0	7,216	106,429			
Utilities	0	59,223	27,742	0	0	0	0	86,965			
Interest expense	0	0	0	0	0	53,448	0	53,448			
Equipment Purchases	0	0	50,794	0	0	0	0	50,794			
	784,278	2,788,940	977,438	1,857,036	489,219	1,195,605	543,879	8,636,395			
Less: expenses included with revenues											
Cost of goods sold	0	(137,375)	0	0	0	0	0	(137,375)			
	\$ 784,278	\$ 2,651,565	\$ 977,438	\$ 1,857,036	\$ 489,219	\$ 1,195,605	\$ 543,879	\$ 8,499,020			

The accompanying notes are an integral part of this financial statement presentation.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED 31 AUGUST 2024

(MEMORANDUM ONLY)

Program Services

	Artist Development		Access & Education		Austin Studios		Texas Film Awards		Administrative	Fundraising	Total
Salaries & Fringe	\$ 226,430	\$ 1,271,851	\$ 730,758	\$ 497,640	\$ 5,101	\$ 733,919	\$ 452,601	\$ 3,918,300			
Maintenance & Repair	0	50,498	15,363	784,358	0	250	0	850,469			
Program Expenses	38,151	411,675	120,222	21,741	163,596	33,449	46,000	834,834			
Depreciation	0	39,217	0	466,816	0	10,726	0	516,759			
Rent	0	367,994	0	0	0	0	0	367,994			
Sponsored Projects	296,897	0	0	0	0	0	0	296,897			
Other	20,029	117,440	1,775	0	0	19,213	43,340	201,797			
Grants to Artists	215,500	0	0	0	0	0	0	215,500			
Professional Fees	2,435	24,179	65,369	300	1,029	64,543	20,190	178,045			
Cost of goods sold	0	155,897	0	0	0	0	0	155,897			
Network & Systems	191	55,691	2,140	0	54	97,757	0	155,833			
Travel	30,279	36,385	3,052	14,718	0	5,213	6,420	96,067			
Utilities	0	58,571	27,248	0	0	0	0	85,819			
Marketing & Publicity	0	73,670	0	1,360	1,082	0	9,478	85,590			
Interest expense	0	0	0	0	0	71,067	0	71,067			
Equipment Purchases	0	0	47,024	0	0	0	0	47,024			
	829,912	2,663,068	1,012,951	1,786,933	170,862	1,036,137	578,029	8,077,892			
Less: expenses included with revenues											
Cost of goods sold	0	(155,897)	0	0	0	0	0	(155,897)			
	\$ 829,912	\$ 2,507,171	\$ 1,012,951	\$ 1,786,933	\$ 170,862	\$ 1,036,137	\$ 578,029	\$ 7,921,995			

The accompanying notes are an integral part of this financial statement presentation.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Incorporated under the State of Texas Non-Profit Corporation Act in 1986, Film Society of Austin, Inc. d.b.a. Austin Film Society (AFS) was established by a group interested in screening important films from around the world that would not otherwise be shown in Austin. From the outset, AFS has presented programs within an artistic and cultural context. AFS exists to promote the appreciation of film and to support creative media production.

AFS is organized exclusively for charitable and educational purposes and for lessening the burdens of government, including for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code. Without limiting the foregoing, these purposes may be accomplished through educating the public as to the virtue and rewards of viewing classic, international and rarely seen films and multimedia productions; educating the public as to the techniques of creating and distributing such films; and supporting creative film making by providing equipment, facilities, grants, scholarships, fiscal sponsorship and the like.

In May 2016, AFS signed a long-term lease with The Linc and opened the AFS Cinema, a full-time two-screen movie theater. The AFS Cinema brings exhibitions to a local audience. It also hosts a lobby bar, concessions, and event hall to support community gatherings and supplement ticket sales.

AFS created Film Society of Austin Theater, LLC d.b.a. AFS Cinema, a single-member LLC, to develop and hold the Cinema property. The IRS considers this corporation a “disregarded entity” and as such, the AFS Cinema is not required to file a tax return separate from AFS. The AFS Cinema is under the same management and Board of Directors as AFS. The financial statements of AFS and Film Society of Austin Theater d.b.a. AFS Cinema have been consolidated. All intercompany transactions have been eliminated.

AFS conducts the following programs:

AFS Cinema - This program focuses on exhibiting contemporary global cinema, classic masterpieces by well-known auteurs, U.S. and international independent works, repertory series, documentary films of great importance and experimental films that push the boundaries of content and expand film language.

Artist Development - AFS provides professional development services to filmmakers including fiscal sponsorship, educational workshops, networking events and works-in-progress screenings. AFS raises and distributes cash funds and in-kind support services to emerging film and creative media artists from across Texas through the annual AFS Grant program.

Access & Education - AFS provides support for media makers to create content and diversify the media landscape. AFS offers low- and no-cost training and access to equipment, facilities, and distribution opportunities via Austin Public, which is operated by AFS through a management contract with the City of Austin.

Texas Film Awards - The Texas Film Awards brings together legends of cinema and television and honors those who have contributed significantly to film culture and the industry at large. This program honors the best in Texas talent by inducting honorees into the Texas Film Hall of Fame.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Austin Studios - Austin Studios is a creative media production facility operated by AFS through a lease with the City of Austin. Austin Studios serves as a production base for feature films, commercials, music videos, and short-form content. The facility also provides media makers with the infrastructure to get their films made and grow their businesses.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

AFS uses the accrual basis method of accounting. Using this method of accounting, revenue and accounts receivable are reported when funds are considered earned, regardless of when cash is received. Expenses and accounts payable are reported when obligations are incurred, regardless of when cash is disbursed.

FINANCIAL STATEMENT PREPARATION

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. These result from rental income, sponsored projects, fees for services, admissions, concessions, membership dues, local government contracts and grants, federal awards, and other operating revenues and unrestricted contributions, less expenses incurred in operations to raise contributions and for administrative functions.

Net Assets With Donor Restrictions

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

Donor imposed restrictions are released when the restriction expires, which includes when the stipulated time has elapsed, when the stipulated purpose for which the restricted resource has been fulfilled, or both.

FIXED ASSETS

Fixed assets are capitalized at cost if the value of the item is more than \$5,000 and the estimated useful service life of the item is more than one year. Donations of fixed assets are recorded as support at their estimated fair value at the date of donation. Depreciation is computed over the estimated useful service life of the asset (generally 5 to 10 years) using the straight-line method.

RECEIVABLES

Unconditional grants and contributions are recorded as revenue and receivable at fair value on the date of the award. AFS earns revenue from cost-reimbursement grants when expenses are incurred in performance of the grant contract.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rental income is recorded as revenue and receivable at the beginning of each month within the tenant's lease term. Amounts are considered past due in accordance with lease agreements.

Uncollectible receivables are provided for using the allowance method of accounting for bad debts, whereby a provision for uncollectible accounts is charged to expense. This estimate is based on management's experience with tenants, individual grantors and donors. AFS considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

INVESTMENTS

Investments consist of mutual funds carried at fair value.

CONTRIBUTIONS

Contributions received are recorded as support with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon expiration of time or purpose restrictions. Memberships are considered contributions because they are not considered to have an exchange element.

RENTAL INCOME AND SECURITY DEPOSITS

AFS rents studio space to filmmakers for the production of movies. AFS requires security deposits from film companies renting studio space. These deposits are recorded as a liability on the consolidated statement of financial position.

CONTRIBUTED GOODS AND SERVICES

Contributed services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed goods are recorded at their fair value in the period received.

CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is derived from admissions, concessions, and fees for services. Tickets for theater admission and the related concession sales are recognized as revenue at a point in time, upon purchase because AFS's obligation is generally fulfilled on the same day. Fees for services revenue, which are primarily derived from classes and studio tours, are also recorded at a point in time, upon purchase because the classes and tours occur upon sale. Payment is due upon purchase, which does not give rise to any contract receivables, contract assets, contract liabilities, or any variable considerations or other related obligations.

FEDERAL INCOME TAX

AFS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying consolidated financial statements.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FUNCTIONAL ALLOCATION OF EXPENSES

The consolidated 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. Expenses are allocated based on estimates of personnel time and management's review and analysis of individual transactions and costs. Expenses that are allocated are salaries & fringe, program expenses, maintenance and repair, utilities, professional fees, travel, depreciation, network and systems, marketing and publicity, and other.

ESTIMATES

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

LEASES

AFS determines if an arrangement is or contains a lease at inception. Leases are included in right of use (ROU) assets and operating lease obligations in the consolidated statement of financial position. ROU assets and lease obligations reflect the present value of the future minimum lease payments over the lease term. Operating leases are recognized on a straight-line basis over the lease term. AFS does not report ROU assets and leases obligations for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. AFS has elected to apply a practical expedient under which it does not separate lease and non-lease components for its real estate leases.

COST- REIMBURSEMENT GRANTS

A significant portion of AFS's revenue is derived from cost-reimbursement government grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when AFS has incurred expenditures in compliance with specific contract provisions. Cash amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position. There were no refundable advances at year end.

MEMORANDUM ONLY TOTALS

The consolidated financial statements include certain prior-year summarized comparative information in total, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AFS's consolidated financial statements for the year ended 31 August 2024, from which the summarized information was derived.

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
AND FILM SOCIETY OF AUSTIN THEATER, LLC d.b.a. AFS CINEMA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUBSEQUENT EVENTS

AFS has evaluated subsequent events as of the date of the Independent Auditor's Report, the date the consolidated financial statements were available to be issued.

NOTE 3: FAIR VALUE MEASUREMENTS

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	<u>\$987,987</u>	<u>\$987,987</u>	<u>N/A</u>	<u>N/A</u>

NOTE 4: NET ASSETS DESIGNATED BY BOARD OF DIRECTORS

AFS has received contributions without donor restrictions that have been designated by the Board of Directors as the Artistic Fund, which will seed projects and be replenished as part of each project. The Board of Directors has also designated as endowments, a portion of the AFS Grant Program Fund, the Operations Fund, and the Harrison McClure Endowed Film Fund. The designated portion is calculated as the accumulated increase, if any, in the Consumer Price Index for All Urban Consumers over the balance restricted by donors to be held in perpetuity in each fund from 1 January 2007.

Designated for Endowments	\$263,572
Designated for Artistic Fund	<u>35,847</u>
	<u>\$299,419</u>

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

Perpetual in nature

Net assets with donor restrictions to be held in perpetuity from which interest earned may be used in operations.	\$100,000
Net assets with donor restrictions to be held in perpetuity resulting from the sale of a house. The donor stipulated that the house be sold and proceeds are permanently restricted with the interest to be used for making grants to film makers.	96,677
Net assets with donor restrictions from which interest earned must be used for scholarships to support undergraduate students in making a film to complete a course or degree requirement.	<u>60,000</u>
	<u>\$256,677</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Satisfaction of purpose restrictions during the year

Sponsored projects	\$261,263
Film finance	728,846
Grants to filmmakers	<u>105,960</u>
	<u>\$1,096,069</u>

NOTE 6: LEASES

AFS evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent AFS's right to use underlying assets for the lease term, and the lease obligations represent AFS's obligation to make lease payments arising from the leases.

The ROU assets and lease obligations, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms using a discount rate. The discount rate is based on the risk free discount rate established by the United States Treasury for a similar term at the date of lease implementation.

AFS's operating leases consist of one lease for space located in Austin, through May 2028 with monthly rental payments ranging from \$12,664 to \$14,571. This lease contains two additional five-year renewal options. Subsequent to year end, the first renewal option was exercised to extend the lease through 31 May 2033. This renewal contained a tenant improvement allowance of \$178,780 to be applied toward improvements to the cinema space. See footnote 19 for additional information. It is reasonably certain that the second renewal option will also be exercised and as such, both renewals are included in the ROU calculations. The discount rate used was 3.3%.

Total rent expense for the year was comprised of:

Operating lease expense	\$199,695
Non lease expenses	<u>229,194</u>
	<u>\$428,889</u>

As of 31 August 2025, ROU assets related to operating leases were as follows:

Cost	\$2,380,801
Less: accumulated amortization	<u>(372,012)</u>
	<u>\$2,008,789</u>

Cash paid for amounts included in the measurement of lease obligations:

Operating cash flows from operating leases	<u>\$174,847</u>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future maturities of lease liabilities are as follows, for the years ended 31 August:

2026	\$174,847
2027	174,847
2028	181,372
2029	200,949
2030	200,949
Thereafter	<u>1,704,846</u>
	2,637,810
Less: present value discount	<u>(537,314)</u>
	<u>\$2,100,496</u>

NOTE 7: CONTRIBUTED FACILITIES

AFS leases its facilities from the City of Austin for \$100 a year. The fair value of the use of this property cannot be reasonably determined; therefore, no amounts have been recognized for contributed facilities in the consolidated statement of activities. On 30 November 2014 the City of Austin extended the lease agreement to 21 July 2034 and there are two additional extensions to the lease for twenty-five years each at AFS's option.

NOTE 8: FIXED ASSETS

Leasehold improvements	\$10,785,978
Furniture and equipment	736,238
Owned facilities	703,813
Website	<u>196,562</u>
	12,422,591
Accumulated depreciation	<u>(5,156,280)</u>
	<u>\$7,266,311</u>

NOTE 9: ENDOWMENTS

AFS's endowments consists of three funds 1) the AFS Grant Program Fund, 2) the Operations Fund, and 3) the Harrison McClure Endowed Film Fund. The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors of AFS has interpreted the State Prudent Management of Institutional Funds Act as requiring the preservation of the historic value of the original gift as of the gift date to the donor-restricted endowment fund due to explicit donor stipulations. As a result of this interpretation, AFS classifies as restricted in perpetuity (a) the historical value of the gift donated to the permanent endowment, and (b) the historical value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund not classified as restricted in perpetuity is classified as net assets with donor restrictions until those amounts are used for the intended purpose.

The Board of Directors has established the amount available for distribution for the AFS Grant Program Fund and the Operations Fund in any calendar year is unrestricted for use, in the amount by which the funds, after deduction of any fees or expenses, exceed the “Base.” The Base is defined as the amount that was in the fund as of 1 January 2007 (\$248,246) as increased each calendar year by the increase, if any, in the Consumer Price Index for All Urban Consumers.

The amount available for distribution for the Harrison McClure Endowed Film Fund in any year is the amount by which the asset value of the fund after deduction of any fees or expenses exceeds \$60,000 plus the increase in the Consumer Price Index for All Urban Consumers since 1 January 2007.

Endowment Net Asset Composition by Type of Fund:

<u>Endowment Funds</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted			
Original donor-restricted gift amount and amounts required to be held in perpetuity	\$0	\$256,677	\$256,677
Board-designated	<u>263,572</u>	<u>0</u>	<u>263,572</u>
	<u>\$263,572</u>	<u>\$256,677</u>	<u>\$520,249</u>

Changes in Endowment Net Assets:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning endowment net assets	\$250,728	\$256,677	\$507,405
Board designation	12,844	0	12,844
Investment return	0	45,160	45,160
Amount appropriated for expenditure	<u>0</u>	<u>(45,160)</u>	<u>(45,160)</u>
Ending endowment net assets	<u>\$263,572</u>	<u>\$256,677</u>	<u>\$520,249</u>

Return Objective and Risk Parameters and Strategies Employed for Achieving Objectives:

All endowment funds are invested in mutual funds and cash. Maximization of return on investment

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is an important objective. Allocation of assets for investment varies from time to time, as determined by the Board of Directors and management. Investments are allocated among money market mutual funds and domestic and international stock market index mutual funds.

Spending Policy and How the Investments Objective Relate to Spending Policy:

AFS's policy includes stipulations to make grants to filmmakers and for operations, under rules established by the Board of Directors. Earnings on the board-designated endowment are available to be spent upon approval of the Board of Directors.

NOTE 10: CONCENTRATIONS

AFS received 32% of its total revenue from two sources. One of these sources is one Austin Studios tenants representing 18% of total revenue for a one time contract cancellation payment. See footnote 14 for further discussion on minimum rentals to be received from these tenants.

100% of local government contracts and grants receivable were due from one source and 91% of contributions and other receivables were due from one source.

AFS's financial instruments exposed to concentration of credit risk consist of investments which are held in brokerage accounts. AFS has not experienced any losses due to these credit risks. Investment balances in excess of SIPC coverage were \$2,796,703 at year end.

NOTE 11: RETIREMENT PLAN

AFS has established a Simple IRA plan for all employees who have received or are expected to receive at least \$5,000 in compensation. Employees can contribute the maximum allowed under the Internal Revenue Service limitations. AFS matches employee contributions up to 3% of salary. During the year AFS contributed \$68,286 to the retirement plan.

NOTE 12: CONTRIBUTED GOODS AND SERVICES

During the year AFS received the following contributed goods and services:

Professional services	\$12,890
Event food and beverages	<u>5,351</u>
	<u>\$18,241</u>

Contributed goods and services were used for the following activities:

Austin Studios	\$13,351
Operations	<u>4,890</u>
	<u>\$18,241</u>

Contributed professional services are comprised of legal services received in support of general operations. Contributed professional services are valued and reported at the estimated fair value in the consolidated financial statements based on current rates for similar services.

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AFS received donated event food and beverages, which are recorded in the consolidated financial statements at their estimated fair value based on current rates for similar goods.

NOTE 13: AUSTIN PUBLIC EQUIPMENT

Under its grant contract with the City of Austin, AFS is allowed to purchase equipment for use for Austin Public Access television activity. The City of Austin retains title to such equipment. Accordingly, such purchases are not capitalized but are included in expenses.

NOTE 14: LEASES IN FINANCIAL STATEMENTS OF LESSORS

AFS leases office space and sound stage space to various tenants. Information on the office buildings and sound stage spaces leased is as follows:

<u>Description</u>	<u>Cost</u>	<u>Book Value</u>
Office buildings	\$703,813	\$254,934
Sound stage spaces leasehold improvements (the property for these spaces is owned by the City of Austin)	<u>9,115,569</u>	<u>5,836,474</u>
	<u>\$9,819,382</u>	<u>\$6,091,408</u>

Future minimum rentals to be received on these leases as of 31 August 2025 are as follows:

2026	\$457,223
2027	316,989
2028	<u>326,494</u>
	<u>\$1,100,706</u>

NOTE 15: LIQUIDITY AND AVAILABILITY

As part of AFS's liquidity management, financial assets are structured to be available as general expenditures, liabilities, and other obligations come due. AFS invests cash in excess of daily requirements in investments.

Restricted investments and cash relate to the net assets with donor restrictions to be held in perpetuity.

AFS's endowment funds consist of donor-restricted and board-designated investments. Income from donor-restricted endowments is temporarily restricted. Donor-restricted endowment funds are not available for general expenditure. See Note 5 for additional details regarding the nature of donor imposed restrictions on assets that are not available for general expenditures within one year of the consolidated statement of financial position date.

The balance in the board-designated investment account (Note 4) at 31 August 2025 was \$263,572. These amounts could be made available if necessary by obtaining Board of Directors approval prior to spending.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial assets available for general expenditure, within one year of the consolidated statement of financial position date, comprise the following:

Cash	\$3,999,072
Investments	791,310
Contributions and other receivables	523,187
Rent receivable	60,168
Local government contracts and grants receivable	<u>353,789</u>
	5,727,526
Net assets unavailable for general expenditure due to:	
Board designations	(299,419)
	<u>\$5,428,107</u>

NOTE 16: DEBT

AFS has an Economic Injury Disaster Loan from the Small Business Administration (original amount of \$150,000). On 1 December 2021 a modification to the loan was made to increase the loan to \$2,000,000. The loan is secured by all tangible and intangible personal property and accrues interest at 2.75% per annum. The loan is payable in monthly installments of \$8,709 for thirty years beginning June 2021. The outstanding principal balance at year end was \$1,915,498.

Future debt obligations are as follows for the years ended 31 August:

2026	\$52,086
2027	53,941
2028	55,443
2029	56,987
2030	58,574
Thereafter	<u>1,638,467</u>
	<u>\$1,915,498</u>

NOTE 17: CASH AND RESTRICTED CASH

Cash reported in the consolidated statement of financial position	\$3,999,072
Restricted cash reported in the consolidated statement of financial position	<u>60,000</u>
Cash and restricted cash reported in the consolidated statement of cash flows	<u>\$4,059,072</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: RELATED PARTY TRANSACTIONS

Members of the AFS Board of Directors provide various supporting contributions such as membership contributions, Texas Film Hall of Fame table sponsorships, and contributed services. Total contributions from Board members for the year were \$207,286.

NOTE 19: SUBSEQUENT EVENTS

In March 2026, AFS received a \$750,000 loan from a Board member to convert the existing event hall space at the AFS Cinema into a third theater. The loan is unsecured and accrues interest at 3.86% percent per annum. The loan is payable in annual installments. Annual payments will be tied to and limited by the borrower's increased annual net income generated by the operation of the new third theater. The first payment is due or before 1 November 2027.

NOTE 20: PRIOR PERIOD ADJUSTMENT

As of 31 August 2024, net assets with donor restrictions was overstated by \$221,154 and net assets without donor restrictions was understated by \$221,154. A prior period adjustment has been recorded to restate beginning net assets with and without donor restrictions. This adjustment had no effect on change in net assets for the year ended 31 December 2024.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, as previously reported	\$10,653,113	\$1,206,677	\$11,859,790
To correct net asset classifications	<u>221,154</u>	<u>(221,154)</u>	<u>0</u>
Net assets, as restated	<u>\$10,874,267</u>	<u>\$985,523</u>	<u>\$11,859,790</u>