



Montemayor Britton Bender 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 2023



Montemayor Britton Bender 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 2023, 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 2023, 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.

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 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 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 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 judgment and maintain professional skepticism throughout 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 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 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 2022 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated 10 May 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended 31 August 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Montemayor Britton Bender PC

17 May 2024
Austin, 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 2023**

ASSETS

	<u>2023</u>	Memorandum only <u>2022</u>
Current assets		
Cash	\$4,146,476	\$3,847,955
Investments	519,895	441,874
Rent receivable	50,639	4,203
Local government contracts and grants receivable	494,291	475,526
Prepaid expenses and other	<u>104,020</u>	<u>89,668</u>
	5,315,321	4,859,226
Fixed assets	7,872,874	7,948,839
Right of use asset - operating lease	2,259,625	0
Restricted cash	60,000	60,000
Restricted investments	<u>196,677</u>	<u>196,677</u>
	<u>\$15,704,497</u>	<u>\$13,064,742</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$122,007	\$257,963
Security deposits	257,505	239,648
Deferred revenue	113,665	45,014
Accrued liabilities	101,334	86,546
Current portion of operating lease obligation	98,939	0
Current portion of long term debt	<u>33,301</u>	<u>0</u>
	726,751	629,171
Operating lease obligation, net of current portion	2,202,697	0
Long term debt, net of current portion	<u>1,966,699</u>	<u>2,000,000</u>
	<u>4,896,147</u>	<u>2,629,171</u>
Net assets		
Without donor restrictions		
Undesignated	10,283,944	9,921,198
Board designated	<u>267,729</u>	<u>243,886</u>
	10,551,673	10,165,084
With donor restrictions	<u>256,677</u>	<u>270,487</u>
	<u>10,808,350</u>	<u>10,435,571</u>
	<u>\$15,704,497</u>	<u>\$13,064,742</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 2023**

	2023			Memorandum
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Only 2022</u>
REVENUE				
Rental income	\$3,999,924	\$0	\$3,999,924	\$3,411,885
Local government contracts and grants	1,030,078	0	1,030,078	1,067,181
Contributions	763,225	490,573	1,253,798	1,051,199
Admissions	641,093	0	641,093	551,276
Concessions, net of cost of goods sold of \$136,440 and \$102,158	432,856	0	432,856	328,272
Forgiveness of Paycheck Protection Program loan	0	0	0	463,508
Memberships	258,650	0	258,650	188,410
Federal awards	195,000	0	195,000	439,005
Fees for services	136,207	0	136,207	95,362
Unrealized gain/(loss) on investments	38,725	23,610	62,335	(96,636)
Contributed goods and services	33,627	0	33,627	50,910
Other	106,945	0	106,945	23,763
Net assets released from restrictions	<u>527,993</u>	<u>(527,993)</u>	<u>0</u>	<u>0</u>
	<u>8,164,323</u>	<u>(13,810)</u>	<u>8,150,513</u>	<u>7,574,135</u>
EXPENSES				
Program				
Filmmaker Support	880,935	0	880,935	774,729
AFS Cinema	2,131,297	0	2,131,297	1,805,402
Community Media	948,337	0	948,337	865,229
Austin Studios	1,792,982	0	1,792,982	1,682,362
Texas Film Awards	<u>616,736</u>	<u>0</u>	<u>616,736</u>	<u>331,955</u>
	6,370,287	0	6,370,287	5,459,677
Administrative	898,467	0	898,467	649,035
Fundraising	<u>508,980</u>	<u>0</u>	<u>508,980</u>	<u>352,760</u>
	<u>7,777,734</u>	<u>0</u>	<u>7,777,734</u>	<u>6,461,472</u>
CHANGE IN NET ASSETS	386,589	(13,810)	372,779	1,112,663
BEGINNING NET ASSETS	<u>10,165,084</u>	<u>270,487</u>	<u>10,435,571</u>	<u>9,358,752</u>
ENDING NET ASSETS	<u>\$10,551,673</u>	<u>\$256,677</u>	<u>\$10,808,350</u>	<u>\$10,471,415</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 2023**

	<u>2023</u>	Memorandum Only <u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$372,779	\$1,076,819
Forgiveness of Paycheck Protection Program loan	0	(463,508)
Depreciation expense	500,811	489,307
Unrealized (gain)/loss on investments	(62,335)	96,636
Bad debt expense	0	2,239
Amortization of right of use asset	121,176	0
Change in rent receivable	(46,435)	111,595
Change in local government contracts and grants receivable	(18,765)	(98,448)
Change in prepaid expenses and other	(14,352)	(15,554)
Change in accounts payable	(135,956)	3,591
Change in security deposits	17,857	62,199
Change in deferred revenue	68,651	(30,962)
Change in accrued liabilities	14,788	19,978
Change in operating lease obligation	<u>(79,165)</u>	<u>0</u>
	<u>739,054</u>	<u>1,253,892</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(15,687)	(10,065)
Purchases of fixed assets	<u>(424,846)</u>	<u>(1,164,091)</u>
	<u>(440,533)</u>	<u>(1,174,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Small Business Administration loan	0	1,850,000
Repayment of principal	<u>0</u>	<u>(102,461)</u>
	<u>0</u>	<u>1,747,539</u>
NET CHANGE IN CASH AND RESTRICTED CASH	298,521	1,827,275
BEGINNING CASH AND RESTRICTED CASH	<u>3,907,955</u>	<u>2,080,680</u>
ENDING CASH AND RESTRICTED CASH	<u>\$4,206,476</u>	<u>\$3,907,955</u>
RIGHT OF USE OF ASSET OBTAINED IN EXCHANGE FOR OPERATING LEASE OBLIGATION UPON IMPLEMENTATION OF ASC 842	<u>\$2,380,801</u>	<u>\$0</u>

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**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 2023**

Program Services

	Filmmaker Support		Community Media		Texas Film Awards		Administrative	Fundraising	Total
	AFS Cinema	Austin Studios	Austin Studios	Austin Studios	Austin Studios	Austin Studios	Austin Studios	Austin Studios	Austin Studios
Salaries & Fringe	\$ 165,233	\$ 1,014,295	\$ 676,143	\$ 504,082	\$ 132,763	\$ 620,227	\$ 369,726	\$ 3,482,469	
Maintenance & Repair	0	52,663	15,255	798,897	0	0	0	866,815	
Program Expenses	38,375	370,533	81,535	7,937	277,716	40,805	21,918	838,819	
Depreciation	0	38,931	0	452,119	0	9,761	0	500,811	
Sponsored Projects	465,585	0	0	0	0	0	0	465,585	
Rent	0	332,959	0	0	0	0	0	332,959	
Professional Fees	12,210	11,490	58,815	10,000	88,198	51,461	56,235	288,409	
Grants to Artists	179,000	0	0	0	0	0	0	179,000	
Other	2	103,475	2,014	1,850	0	11,848	53,410	172,599	
Network & Systems	0	49,229	34,457	0	0	85,927	0	169,613	
Marketing & Publicity	0	72,464	2,379	6,544	49,924	0	6,977	138,288	
Travel	20,530	31,475	3,427	11,553	68,135	57	714	135,891	
Utilities	0	53,783	25,931	0	0	0	0	79,714	
Interest expense	0	0	0	0	0	78,381	0	78,381	
Equipment Purchases	0	0	48,381	0	0	0	0	48,381	
	\$ 880,935	\$ 2,131,297	\$ 948,337	\$ 1,792,982	\$ 616,736	\$ 898,467	\$ 508,980	\$ 7,777,734	

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 2022**

Program Services

	Filmmaker Support		Community Media		Texas Film Awards		Administrative	Fundraising	Total
	AFS Cinema	AFS Cinema	Austin Studios	Austin Studios	Awards	Awards			
Salaries & Fringe	\$ 164,489	\$ 830,734	\$ 497,518	\$ 457,724	\$ 72,403	\$ 415,104	\$ 273,963	\$ 2,711,935	
Maintenance & Repair	0	65,762	12,810	755,898	0	0	0	834,470	
Program Expenses	22,714	292,265	84,533	22,429	146,155	46,545	25,714	640,355	
Depreciation	0	44,383	0	435,164	0	9,760	0	489,307	
Sponsored Projects	427,335	0	0	0	0	0	0	427,335	
Rent	0	289,349	0	0	0	0	0	289,349	
Professional Fees	9,960	15,387	91,398	7,487	51,166	78,365	25,277	279,040	
Network & Systems	0	54,886	42,875	0	0	81,693	0	179,454	
Other	231	99,447	5,132	3,245	29,617	17,568	23,618	178,858	
Grants to Artists	150,000	0	0	0	0	0	0	150,000	
Marketing & Publicity	0	63,813	21,437	415	32,614	0	4,188	122,467	
Equipment Purchases	0	0	88,152	0	0	0	0	88,152	
Utilities	0	49,376	21,374	0	0	0	0	70,750	
	\$ 774,729	\$ 1,805,402	\$ 865,229	\$ 1,682,362	\$ 331,955	\$ 649,035	\$ 352,760	\$ 6,461,472	

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 Cinema, 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, 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 Cinema 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.

Filmmaker Support - 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.

**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

Community Media - 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.

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, and other operating revenues and unrestricted contributions, less expenses incurred in operations to raise contributions and for administrative functions.

**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 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

INVESTMENTS

Investments consist of mutual funds carried at fair value.

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.

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.

**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 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 service revenue, which is 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
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 salary & 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 lease 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.

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.

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 2022, 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

NOTE 3: LEASES

AFS evaluated current contracts to determine which met the criteria of a lease. The ROU assets represents AFS's right to use underlying assets for the lease term, and the lease obligations represents 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 incremental borrowing rate, the rate AFS would pay for a loan to purchase a similar asset over a similar term.

AFS's operating leases consist of one lease for space located in Austin, Texas. On 1 June, 2023, AFS renewed the operating lease agreement for space through May 2028 with monthly rental payments of \$12,664. This lease contains two five-year renewal options, and it is reasonably certain that the options will be exercised and as such, they 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	\$199,694
Non lease expenses	<u>133,265</u>
	<u>\$332,959</u>

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

2024	\$174,847
2025	174,847
2026	174,847
2027	174,847
2028	181,372
Thereafter	<u>2,106,743</u>
	2,987,503
Less: present value discount	<u>(685,867)</u>
	<u>\$2,301,636</u>

**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 3: LEASES

As of 31 August 2023, ROU assets related to operating leases were as follows:

Cost	\$2,380,801
Less: accumulated amortization	<u>(121,176)</u>
	<u>\$2,259,625</u>

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

Operating cash flows from operating leases	<u>\$157,684</u>
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NOTE 4: 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)
Investments in mutual funds	<u>\$716,572</u>	<u>\$716,572</u>	<u>N/A</u>	<u>N/A</u>

NOTE 5: 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 Grants 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 Endowment	\$235,188
Designated for Artistic Fund	<u>32,541</u>
	<u>\$267,729</u>

**FILM SOCIETY OF AUSTIN, INC. d.b.a. AUSTIN FILM SOCIETY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: 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
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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
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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>
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\$256,677

Satisfaction of purpose restrictions and expiration of time restrictions

Sponsored projects	\$478,583
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Grants to filmmakers	<u>49,410</u>
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\$527,993

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	\$10,476,287
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Furniture and equipment	730,036
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Owned facilities	624,437
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Website	<u>154,562</u>
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11,985,322

Accumulated depreciation	<u>(4,112,448)</u>
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\$7,872,874

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS

AFS’s endowment consists of three funds 1) the AFS Grant Program Fund, 2) the Operations Fund, and 3) the Harrison McClure Endowed Film Fund. The endowment includes 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.

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>235,188</u>	<u>0</u>	<u>235,188</u>
	<u>\$235,188</u>	<u>\$256,677</u>	<u>\$491,865</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9: ENDOWMENTS

Changes in Endowment Net Assets

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Beginning endowment net assets	\$212,703	\$256,677	\$469,380
Board designation	22,485	0	22,485
Investment return	0	23,610	23,610
Amount appropriated for expenditure	<u>0</u>	<u>(23,610)</u>	<u>(23,610)</u>
Ending endowment net assets	<u>\$235,188</u>	<u>\$256,677</u>	<u>\$491,865</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 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 48% of its total revenue from three sources. One of these sources is an Austin Studios tenant representing 12% of total revenue and has indicated to AFS management their intent to cease operations. See footnote 16 for further discussion on minimum rentals to be received from this tenant. 94% of local government contracts and grants receivable were due from two sources. Cash at year end exceeded FDIC coverage by \$3,712,680.

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 \$48,593 to the retirement plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12: 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 \$259,430.

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: CONTRIBUTED GOODS AND SERVICES

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

Professional services	\$13,385
Rental space	5,000
Marketing and publicity	5,000
Event auction items	5,780
Event food and beverage	<u>4,462</u>
	<u>\$33,627</u>

Contributed goods and services were used for the following activities:

Austin Studios	\$1,850
Operations	5,785
Development	<u>25,992</u>
	<u>\$33,627</u>

Contributed professional services comprise professional services received in support of its program. Contributed professional services are valued and reported at the estimated fair value in the consolidated financial statements based on current rates for similar services.

Contributed rent was utilized by all of the programs of the organization. In valuing the contributed rent, AFS estimated the fair value based on current rates for similar rental spaces.

AFS received donated event auction items, event food beverage, and marketing and publicity which are recorded in the consolidated financial statements at an estimated fair value based on current rates for similar products.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 are temporarily restricted. Donor-restricted endowment funds are not available for general expenditure.

See Note 7 for additional details regarding the nature of donor imposed restrictions on cash, and investments that are not available for general expenditures within one year of the statement of financial position date.

The balance in the board designated investment account (Note 5) at 31 August 2023 was \$235,188. These amounts could be made available if necessary by obtaining Board of Directors approval prior to spending.

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

Cash	\$4,146,476
Investments	519,895
Rent receivable	50,639
Local government contracts and grants receivable	<u>494,291</u>
	5,211,301
Net assets unavailable for general expenditure due to:	
Board designations	<u>(267,729)</u>
	<u>\$4,943,572</u>

NOTE 16: 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:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: LEASES IN FINANCIAL STATEMENTS OF LESSORS

<u>Description</u>	<u>Cost</u>	<u>Book Value</u>
Office buildings	\$624,437	\$233,100
Sound stage spaces leasehold improvements (the property for these spaces is owned by the City of Austin)	<u>8,840,621</u>	<u>6,278,518</u>
	<u>\$9,465,058</u>	<u>\$6,511,618</u>

Future minimum rentals to be received on these leases as of 31 August 2023 are as follows:

2024	\$2,969,961
2025	968,492
2026	<u>916,428</u>
	<u>\$4,854,881</u>

One tenant, representing \$2,669,976 of the total future minimum rentals to be received, has represented to management their intent to cease operations. There is no time line yet for this event.

NOTE 17: DEBT

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.

\$2,000,000

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

2024	\$33,301
2025	51,064
2026	52,486
2027	53,948
2028	55,450
Thereafter	<u>1,753,751</u>
	<u>\$2,000,000</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: 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 statement of financial position. There were no refundable advances at year-end.

NOTE 19: CHANGE IN ACCOUNTING PRINCIPLES

During the year, AFS adopted Accounting Standards Update (ASU) 2016-02, *Leases* (ASC Topic 842) and subsequent amendments. ASC 842 affects all entities that enter into lease arrangements, with certain exclusions under limited scope limitations. Under ASU 2016-02, an entity recognizes right of use assets and lease obligations on its statement of financial position for all leases with a lease term of more than 12 months. Short-term rentals under one year-to-year leases or remaining lease terms of 12 months or less are exempt from being capitalized.

In adopting the new lease standard, AFS elected to use a transition method under which existing leases were measured and capitalized as of the date of adoption, 1 September 2022, in lieu of applying the standard retrospectively to 1 September 2021. On 1 September 2022, AFS recorded in its 1 September 2022 consolidated statement of financial position a right of use asset for the amount of \$2,380,801 and a lease obligation for operating leases for the amount of \$2,380,801.