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MUELLER FOUNDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

MUELLER FOUNDATION
(A NONPROFIT CORPORATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mueller Foundation
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Mueller Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mueller Foundation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Austin, Texas
March __, 2019

MUELLER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Cash and cash equivalents	$ 1,036,437	$ 116,071
Accounts receivable	119,486	248,309
Investments (Note 3)	2,565,923	2,214,714
Notes receivable, net of discounts (Note 2)	24,837,166	21,171,112
Total assets	$ 28,559,012	$ 23,750,206

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities:		
Accounts payable	$ 81,806	$ 109,031
Total liabilities	81,806	109,031
Total unrestricted net assets	28,477,206	23,641,175
Total liabilities and net assets	$ 28,559,012	$ 23,750,206

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

MUELLER FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Revenue, support and gains:		
Shared equity	$ 2,963,572	$ 2,318,154
Interest income (Note 2)	982,085	879,420
Community assessment fees	471,972	605,827
Builder affordability fees	797,652	993,716
Investment income (Note 3)	316,132	153,114
Contribution (Note 6)	399,889	-
In-kind support (Note 4)	31,403	44,943
Total revenue, support and gains	5,962,705	4,995,174
Expenses and losses:		
Affordable housing program	824,118	1,126,997
Community investment program	63,635	82,514
General and administrative	238,921	211,984
Total expenses and losses	1,126,674	1,421,495
Change in net assets	4,836,031	3,573,679
Unrestricted net assets:		
Beginning of year:		
As originally stated	23,641,175	20,219,795
Prior period adjustment (Note 7)	-	(152,299)
As restated	23,641,175	20,067,496
End of year	$ 28,477,206	$ 23,641,175

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

MUELLER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 4,836,031	$ 3,573,679
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Reinvested interest and dividends net of fees	(35,095)	(19,578)
Realized gains on investments	(7,506)	(4,454)
Unrealized (gain) loss on investments	(252,512)	(107,460)
Shared equity recognized on issuance of notes receivable, net	(2,469,797)	(1,684,975)
Shared equity on notes sold to market	(134,620)	(109,581)
Amortization of discount included in interest income	(982,085)	(879,420)
Decrease in accounts receivable	128,823	47,798
Increase (decrease) in accounts payable	(27,225)	29,653
Net cash flows from operating activities	1,056,014	845,662
Net cash flows from investing activities:		
Purchases of investments	(3,414,557)	(1,135,345)
Proceeds from sales of investments	3,358,461	750,000
Cash received for notes sold to market	279,640	151,074
Cash paid for additional subsidies to keep homes in the affordable program	(359,192)	(527,613)
Net cash flows from investing activities	(135,648)	(761,884)
Net increase in cash and cash equivalents	920,366	83,778
Cash and cash equivalents:		
Beginning of year	116,071	32,293
End of year	$ 1,036,437	$ 116,071
Supplemental disclosure of noncash transactions:		
Increase in accounts receivable through decrease in notes receivable	$ -	$ 74,037

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

NOTE 1 - FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foundation and nature of activities:
The Mueller Foundation (the "Foundation") is a Texas private, non-profit community development corporation established in July 11, 2007. The Foundation's mission is to promote sustainable development and support of affordable housing opportunities within the Mueller Master Community Development (Mueller Development) area of the City of Austin, Texas, promote and increase the availability of quality neighborhood schools and lifelong education programs, and create open space, parks and job training programs in the Mueller Development.

The Foundation receives support from three primary sources. The first is an affordable housing contribution which results from a builder's contractual obligation with Catellus (the "Master Developer") to pay a contribution to the Foundation upon the purchase of a lot in the Mueller development (builder affordability fee). The second is a community assessment fee which is 0.25% of the transaction price on all property sales (subsequent to the initial property transaction by the Master Developer), both residential and commercial, throughout the Mueller Development, in perpetuity. The third is a shared equity program. Under this program, the Foundation is due a fixed amount of each affordable housing unit sold to an initial purchaser. The amount is recorded as a shared equity note receivable and is repaid upon the earlier of the sale of the home or refinancing after the first lien debt is satisfied. When a house is sold to an initial purchaser, the shared equity note receivable is determined based on a prescribed shared equity percentage of the greater of the appraised value or the actual sales price.

Basis of accounting:
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). For financial statement purposes, the Foundation distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Net asset classification:
Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets at December 31, 2017 and 2016.

NOTE 1 - FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net asset classification - continued:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2017 and 2016.

Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

The Foundation considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents.

Income taxes:

The Foundation has received an exemption from federal income taxes from the Internal Revenue Service under Internal Revenue Code Section 501(c)(3). In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2017 and 2016.

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 740 requires extensive disclosures about uncertain tax positions. The requirements of this standard are applicable to nonprofit Foundations. The Foundation evaluates any uncertain tax positions using the provisions of FASB ASC 450. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position.

The Foundation does not believe that it has engaged in any situation that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and therefore, no loss contingency has been recognized in the accompanying financial statements. The Foundation's policy is to record any income tax related penalties and interest incurred as general and administrative expense. The Foundation did not incur any income tax related penalties or interest during the years ended December 31, 2017 and 2016.

Contributions and grants:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence and/or nature of any donor restrictions. Revenue recognition for grants depends on the terms of the contract.

NOTE 1 - FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donated services:
Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received.

Revenue recognition related to home and lot sales:
Revenue is recognized when earned. Community assessment fees, builder affordability fees and shared equity revenue are recognizable upon a sale of property in the Mueller development and are recorded when the sale occurs.

Accounts and notes receivable: Accounts and notes receivable are considered past due based upon contractual terms of the underlying agreement. Any allowance for doubtful accounts is based on prior years' experience and management's analysis of possible bad debts. The Foundation considers all accounts and notes receivable to be fully collectible at December 31, 2017 and 2016.

Programmatic loans:
The Foundation follows the criteria as defined in the American Institute of Certified Public Accountants Audit and Accounting Guides/Not-for-Profit Entities (the AAG/NFP) to determine if any loans meets the definition of programmatic investment. In accordance with the AAG/NFP, programmatic investments are defined as any investments by a not-for profit (NFP) entity that meets the following two criteria:

- Its primary purpose is to further the tax exempt objectives of the NFP entity;
- The production of income or the appreciation of the asset is not a significant purpose (i.e., an investor seeking a market return would not enter into the investment).

Based on the criteria above, the second lien real estate notes described in Note 2 are determined to be programmatic loans. The programmatic loans are reported at amortized cost.

Impaired loans:
In accordance with FASB ASC 310-10, the Foundation considers a loan to be impaired when, based on current information and events, management determines that the Foundation will not be able to collect all amounts due according to the loan agreements. The Foundation noted no indicators of impairment on notes receivable for the years ended December 31, 2017 and 2016.

Functional allocation of expenses:
The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

NOTE 1 - FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair value measurements:
FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

> Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
>
> Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and
>
> Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Recent accounting pronouncements:
In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This update, along with ASU 2016-08, *Revenue from Contracts with Customers (Topic 606). Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients,* establishes a comprehensive revenue recognition standard. The updates require that revenue be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosure is required to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Management continues to evaluate the potential impact of these updates on the its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about a nonprofit organization's liquidity, financial performance, and cash flows. The guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2017. Management believes the impact of this update will be significant with enhanced note disclosures about the Foundation's liquidity and composition of net assets as well as addition of a Statement of Functional Expenses with the Foundation's financial statements. Furthermore, there will be only two classes of net assets (*net assets with donor restrictions* and *net assets without donor restrictions*) used for reporting in the financial statements and notes, rather than the currently required three classes (*unrestricted*, *temporarily restricted* and *permanently restricted*).

NOTE 1 - FOUNDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recent accounting pronouncements - Continued:
In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update standardizes how certain transactions should be classified in the statement of cash flows. The guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2018. Management does not anticipate the adoption of this update will have a material effect on Foundation's financial statements.

NOTE 2 – NOTES RECEIVABLE

The Foundation receives second lien real estate notes from homebuyers who participate in the Mueller Development Affordable Housing Program. The individual note amount is determined by an independent appraisal of the market value of the home less the actual sales price of the home paid by the buyer. The notes are repaid at the earlier of the subsequent sale of the home, refinancing or maturity.

At the date of an initial sale, shared equity program revenue equal to the amount of the second lien real estate note is recognized. In the instance of a subsequent sale of the home to a another participant in the program, any appreciation/depreciation of the market value of the home at the time of the sale is recognized in shared equity program revenue and incorporated into the new note receivable. If the subsequent sale of the home is to a buyer outside of the program, the Foundation receives cash equal to the original second lien note and a prescribed share of any appreciation/depreciation of the market value of the home at the time of the sale. The prescribed share of appreciation/depreciation of the market value of the home is recognized in shared equity program revenue at the time of the subsequent sale.

The notes receivable bear no interest and have a term equal to the term of the first lien on the property. The Foundation's policy is to discount the value of these notes using a discount rate equal to the homebuyer's primary mortgage interest rate. The discount initially recognized is amortized annually on a straight-line basis over the average time of ownership estimated to be ten years and reported as interest income. As of December 31, 2017 and 2016, there were 387 and 336 notes outstanding with an average face amount of $79,022 and $78,713, respectively.

As of December 31, 2017 and 2016, the notes receivable balance is comprised as follows:

	2017	2016
Notes receivable, gross	$ 30,581,541	$ 26,447,647
Discount on notes receivable	(5,744,375)	(5,276,535)
Notes receivable, net	$ 24,837,166	$ 21,171,112

NOTE 2 – NOTES RECEIVABLE

The change in the discount on notes receivable for each of the years ended December 31, 2017 and 2016 consists of the following:

	2017	2016
Beginning balance		
As originally stated	$ 5,276,535	$ 5,163,572
Prior period adjustment (Note 7)	-	(54,587)
As restated	5,276,535	5,108,985
Discounts on new notes	1,449,925	1,046,970
Amortization expense reported as interest income	(982,085)	(879,420)
Ending balance	$ 5,744,375	$ 5,276,535

The Foundation's notes receivable portfolio is exposed to several risk factors:

- Economic and geographic concentration risks associated with home loans in Austin, Texas.
- Risk of a deteriorating economic climate and its impact on the Foundation's collection of loans.

NOTE 3 – INVESTMENTS

For the year ended December 31, 2016, the Foundation's investments are held in two funds with Austin Community Foundation (ACF). For the year ended December 31, 2017, the Foundation's investments consist of certificates of deposits held in a Merrill Lynch account as well as portfolio pools within two ACF funds. All of the income and principal of the Foundation's share of ACF funds are available to the Foundation at any point in time. The Foundation has classified its investments in ACF funds as unrestricted and they are considered Level 2 investments. The Foundation's certificates of deposits are considered Level 1 investments.

NOTE 3 – INVESTMENTS - CONTINUED

The tables below summarize these investments recognized at fair value at December 31:

	2017		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Portfolio investment pools	$ -	$ 1,849,538	$ 1,849,538
Certificate of deposits	716,385	-	716,385
	$ 716,385	$ 1,849,538	$ 2,565,923

	2016	
	Fair Value Measurements Using Input Type	
	Level 2	Total
Portfolio investment pools	$ 2,214,714	$ 2,214,714

NOTE 4 - IN-KIND SUPPORT AND EXPENSES

The value of in-kind support and the corresponding expenses included in the statements of activities for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
In-kind support	$ 31,403	$ 44,943
In-kind expenses:		
Facilities - general and administration	$ 4,643	$ 4,643
Professional services:		
Affordable housing	9,600	8,850
General and administration	17,160	31,450
Total in-kind expenses	$ 31,403	$ 44,943

NOTE 5 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

As stated in Note 1, the Foundation’s operations are dedicated to activities that support an integrated community and affordable housing program on the site formerly occupied by the Robert Mueller Airport within the city of Austin. These activities are primarily funded through affordable housing contributions, community assessment fees (in perpetuity) and by arrangements that provide the Foundation with shared equity revenue on sales of affordable housing units released to market. When the development stage of this project has been completed, the Mueller affordable housing contributions will cease and the Foundation will have to rely on its other sources of income for sustainability.

NOTE 6 – RELATED PARTY TRANSACTIONS

One member of the Board of Directors of the Foundation also serves as an officer of the Master Developer. The Foundation believes its board is comprised of the most qualified, available individuals to lead the Foundation and that a representative from the master developer of the Mueller Development, who can provide insight and facilitate cooperation between itself, the city of Austin, and the Foundation, is crucial while the Mueller community is developing. The Foundation, however, wants to ensure that the Master Developer does not have control of the Foundation, so its bylaws provide that a controlling majority of the Board is made up of individuals with no relationship with the Master Developer.

The Master Developer contributed in-kind professional services and use of facilities to the Foundation totaling $31,403 and $44,943 for the years ended December 31, 2017 and 2016, respectively. During the year ended December 31, 2017, the Master Developer made a $399,889 cash contribution to the Foundation.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

In 2018, the Foundation became aware of an error made in the prior years’ financial statements related to two duplicated entries in the notes receivable portfolio that resulted in gross notes receivable, discounts on notes receivable and net assets being overstated by $206,886, $54,587 and $152,299, respectively, as of January 1, 2016. Had the error not occurred, there would have been a $5,146 decrease in interest income and change in net position for the year ended December 31, 2015.

NOTE 8 - DATE OF MANAGEMENT EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March __, 2019, the date on which the financial statements were available to be issued.