MUELLER FOUNDATION

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2019 AND 2018

MUELLER FOUNDATION
(A NONPROFIT CORPORATION)

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BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows 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, 2019 and 2018, 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.

Brown, Graham & Company, P.C.

Austin, Texas
October 15, 2020

MUELLER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents	$ 1,345,542	$ 886,369
Accounts receivable	224,989	75,685
Investments (Note 3)	3,119,696	3,643,937
Notes receivable, net of discounts (Note 2)	32,504,689	27,944,192
Total assets	$ 37,194,916	$ 32,550,183

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	$ 53,794	$ 76,808
Total liabilities	53,794	76,808
Net assets without donor restrictions	37,141,122	32,473,375
Total liabilities and net assets	$ 37,194,916	$ 32,550,183

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

MUELLER FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenue, support and gains:		
Shared equity, net of preservation expenses of $791,133 and $344,739, respectively	$ 3,026,070	$ 2,235,249
Interest income (Note 2)	1,131,898	1,057,006
Community assessment fees	463,620	350,497
Builder affordability fees	410,945	1,070,528
Net investment gain	424,329	-
In-kind support (Notes 4 and 5)	19,534	21,543
Total revenue, support and gains	5,476,396	4,734,823
Expenses and losses:		
Affordable housing program	476,571	422,629
Community investment program	143,715	40,825
Management and general	188,363	127,136
Net investment loss	-	148,064
Total expenses and losses	808,649	738,654
Change in net assets	4,667,747	3,996,169
Net assets without donor restrictions:		
Beginning of year	32,473,375	28,477,206
End of year	$ 37,141,122	$ 32,473,375

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

MUELLER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services			
	Affordable Housing	Community Investment	Management & General	Total
Contract personnel	$ 62,500	$ 25,000	$ 113,310	$ 200,810
Contract administration	328,107	-	-	328,107
Professional & legal	5,903	435	49,475	55,813
Office	-	-	14,498	14,498
Insurance	13,258	-	11,080	24,338
Program expense	4,950	118,280	-	123,230
Special project	61,853	-	-	61,853
Total expenses	$ 476,571	$ 143,715	$ 188,363	$ 808,649

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

MUELLER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services			
	Affordable Housing	Community Investment	Management & General	Total
Contract personnel	$ 50,000	$ 20,000	$ 70,800	$ 140,800
Contract administration	328,100	-	-	328,100
Professional & legal	17,096	3,195	33,375	53,666
Office	-	-	12,323	12,323
Insurance	13,064	-	10,638	23,702
Program expense	10,035	17,630	-	27,665
Special project	4,334	-	-	4,334
Total expenses	$ 422,629	$ 40,825	$ 127,136	$ 590,590

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

MUELLER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 4,667,747	$ 3,996,169
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Reinvested interest and dividends net of fees	(76,178)	(68,415)
Realized and unrealized investment (gains) losses	(348,151)	216,479
Shared equity recognized on issuance of notes receivable, net	(2,849,966)	(2,004,311)
Shared equity on notes sold to market	(176,104)	(230,937)
Amortization of discount included in interest income	(1,131,898)	(1,057,006)
(Increase) decrease in accounts receivable	(149,304)	43,801
Decrease in accounts payable	(23,014)	(4,998)
Net cash flows from operating activities	(86,868)	890,782
Net cash flows from investing activities:		
Purchases of investments	(1,923,615)	(3,233,438)
Proceeds from sales of investments	2,872,185	2,007,360
Cash received for notes sold to market	388,604	529,967
Cash paid for additional subsidies to keep homes in the affordable program	(791,133)	(344,739)
Net cash flows from investing activities	546,041	(1,040,850)
Net increase (decrease) in cash and cash equivalents	459,173	(150,068)
Cash and cash equivalents:		
Beginning of year	886,369	1,036,437
End of year	$ 1,345,542	$ 886,369

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 on 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 net assets without donor restrictions and net assets with donor restrictions.

Net asset classification:
The classification of the Foundation's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. Net assets of the Foundation 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 restrictions.
>
> Net assets with donor restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Foundation had no net assets with donor restrictions as of December 31, 2019 and 2018.

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

Change in accounting principle:
In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-15, *Statement of Cash Flows (Topic 230)*. The update standardized how certain transactions should be classified in the statement of cash flows. The Company adopted ASU 2016-15 during the year ended December 31, 2019 using a retrospective basis for all periods presented. There was no effect on the change in net assets for the year ended December 31, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Company adopted ASU 2018-08 during the year ended December 31, 2019 using a retrospective basis for all periods presented. There were no changes to the previously reported change in net assets for the year ended December 31, 2018.

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. The Foundation has cash deposits at financial institutions which, at times, exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits.

Contributions and grants:
Contributions received, including unconditional promises to give, if any, are reported at their net realizable values. Gifts of cash and other assets are reported with donor restriction if they are received with donor stipulations that limit their use or if they are intended to support activities in future periods. Revenue recognition for grants depends on the terms of the contract.

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.

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

Accounts receivable: Accounts 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 receivable to be fully collectible at December 31, 2019 and 2018.

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, 2019 and 2018.

Functional allocation of expenses:
The cost of providing affordable housing and community investment program services as well as supporting activities is summarized on a functional expense basis on the accompanying statements of functional expenses. Expenses directly attributable to a specific program or supporting activity of the Foundation are reported as expenses of those functional activities. Contract personnel costs are allocated based on estimated time and effort among specific programs and supporting activity.

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, 2019 and 2018.

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

Income taxes - continued:
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, 2019 and 2018.

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. These 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.

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

Recent accounting pronouncements - continued:
ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2019. 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. Management continues to evaluate the potential impact of these updates on the Foundation's financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (*Topic 842*), which requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. The amendments in ASU No. 2016-02 also require disclosures about the amount, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021 using a modified retrospective approach, and early adoption is permitted. Management is evaluating the effect this update will have on its consolidated financial statements and disclosures.

Reclassifications:
Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

NOTE 2 – NOTES RECEIVABLE

The Foundation receives second lien real estate notes from homebuyers who participate in the Mueller Development Affordable Housing Program (AHP). 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, 2019 and 2018, there were 490 and 431 notes outstanding with an average face amount of $80,548 and $79,210, respectively.

NOTE 2 – NOTES RECEIVABLE - CONTINUED

The change in the discount on notes receivable for each of the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Beginning balance	$ 6,195,263	$ 5,744,375
Discounts on new notes	1,900,400	1,507,894
Amortization expense reported as interest income	(1,131,898)	(1,057,006)
Ending balance	$ 6,963,765	$ 6,195,263

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.

During the year ended December 31, 2018, the Foundation published a board resolution which clarified that after 30 years of AHP ownership and payoff of the second lien note, AHP homeowners do not have any obligation to pay net proceeds from any future home sale to the Foundation. Additionally, the purchase option and right of first refusal agreements executed concurrently with the second lien note are terminated.

NOTE 3 – INVESTMENTS

For the years ended December 31, 2019 and 2018, the Foundation's investments consist of certificates of deposits held in a Merrill Lynch account as well as portfolio pools within two Austin Community Foundation (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. The tables below summarize these investments recognized at fair value at December 31:

	2019		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Portfolio investment pools	$ -	$ 2,349,007	$ 2,349,007
Certificate of deposits	770,690	-	770,690
Total	$ 770,690	$ 2,349,007	$ 3,119,696

NOTE 3 – INVESTMENTS – CONTINUED

	2018		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Portfolio investment pools	$ -	$ 2,542,956	$ 2,542,956
Certificate of deposits	1,100,981	-	1,100,981
Total	$ 1,100,981	$ 2,542,956	$ 3,643,937

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, 2019 and 2018 are as follows:

	2019	2018
In-kind support	$ 19,534	$ 21,543
In-kind expenses:		
Facilities - general and administration	$ 5,359	$ 4,643
Professional services:		
Affordable housing	1,500	2,650
General and administration	12,675	14,250
Total in-kind expenses	$ 19,534	$ 21,543

NOTE 5 – 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 $19,534 and $21,543 for the years ended December 31, 2019 and 2018, respectively (see Note 4).

NOTE 6 – LIQUIDITY AND AVAILABILITY

The Foundation considers all expenditures related to its ongoing activities of affordable housing and community investment services as well as the conduct of activities that support these program services to be general expenditures. Financial assets available for general expenditures within one year from December 31, 2019 and 2018 are as follows:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	$ 1,345,542	$ 886,369
Accounts receivable	224,989	75,685
Investments	3,119,696	3,643,937
Notes receivable	155,462	331,451
Financial assets available to meet general expenditures over the next year	$ 4,845,689	$ 4,937,442

The Foundation manages its liquidity by developing and adopting an operating budget that provides sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

NOTE 7 - 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 8 - COMMITMENTS

During the year ended December 31, 2019, the Foundation and a third party entered into a contract with an unrelated vendor to create an Interpretative Placemaking Plan (IPP) for the EastLink Trail in East Austin. The purpose of the IPP is to link people to the parks and destinations of East Austin, both physically and culturally, by creating a trail that brings alive the histories, the present and the futures of the surrounding local communities. The Foundation and the third party are each responsible for one half of the estimated contract cost of $298,519. IPP expenses of $111,583 are included in community investment program expenses on the statement of activities as of December 31, 2019.

NOTE 9 - SUBSEQUENT EVENTS

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China and has since spread to other countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The Foundation is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Foundation's financial position is not known.

Management has evaluated subsequent events through October 15, 2020, the date on which the financial statements were available to be issued.