MUELLER FOUNDATION

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2021 AND 2020

MUELLER FOUNDATION
(A NONPROFIT CORPORATION)

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mueller Foundation
Austin, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mueller Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mueller Foundation as of December 31, 2021 and 2020 and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audits 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 GAAS 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 GAAS, 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 the Foundation'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 the Foundation'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.

Brown, Graham & Company, P.C.

Austin, Texas
October 4, 2022

MUELLER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
Cash and cash equivalents	$ 639,349	$ 617,037
Accounts receivable	53,374	13,613
Investments (Note 3)	4,828,906	4,153,439
Notes receivable, net of discounts (Note 2)	41,300,338	36,795,117
Total assets	$ 46,821,967	$ 41,579,206

LIABILITIES AND NET ASSETS

	2021	2020
Liabilities:		
Accounts payable	$ 62,189	$ 76,179
Accrued payroll	8,795	-
Total liabilities	70,984	76,179
Net assets without donor restrictions	46,750,983	41,503,027
Total liabilities and net assets	$ 46,821,967	$ 41,579,206

MUELLER FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Revenue, support and gains:		
Shared equity, net of preservation expenses of $1,423,060 and $357,594, respectively	$ 1,991,383	$ 2,983,980
Interest income (Note 2)	1,278,747	1,256,678
Community assessment fees	684,643	356,401
Builder affordability fees	2,024,493	428,471
Net investment gain	316,440	224,037
Other income	23,415	9,149
In-kind support (Notes 4 and 5)	44,509	19,534
Total revenue, support and gains	6,363,630	5,278,250
Expenses:		
Affordable housing program	898,902	638,262
Community investment program	29,019	115,137
Management and general	187,753	162,946
Total expenses	1,115,674	916,345
Change in net assets	5,247,956	4,361,905
Net assets without donor restrictions:		
Beginning of year	41,503,027	37,141,122
End of year	$ 46,750,983	$ 41,503,027

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

MUELLER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services			
	Affordable Housing	Community Investment	Management & General	Total
Salaries, benefits and taxes	$ 116,641	$ 18,144	$ 55,297	$ 190,082
Contract personnel	41,784	-	57,784	99,568
Contract administration	619,288	-	-	619,288
Consultants	4,680	-	8,954	13,634
Professional & legal	53,425	9,375	33,862	96,662
Office	-	-	27,538	27,538
Insurance	15,820	-	4,318	20,138
Program expense	37,380	1,500	-	38,880
Special project	9,884	-	-	9,884
Total expenses	$ 898,902	$ 29,019	$ 187,753	$ 1,115,674

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

MUELLER FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program Services			
	Affordable Housing	Community Investment	Management & General	Total
Contract personnel	$ 75,000	$ 30,000	$ 114,275	$ 219,275
Contract administration	416,493	-	-	416,493
Consultants	115,941	-	-	115,941
Professional & legal	2,672	25,872	28,075	56,619
Office	-	-	12,440	12,440
Insurance	12,842	-	8,156	20,998
Program expense	9,742	59,265	-	69,007
Special project	5,572	-	-	5,572
Total expenses	$ 638,262	$ 115,137	$ 162,946	$ 916,345

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

MUELLER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 5,247,956	$ 4,361,905
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Reinvested interest and dividends, net of fees	(65,649)	(63,102)
Realized and unrealized investment gains	(250,791)	(160,895)
Shared equity recognized on issuance of notes receivable, net	(1,803,414)	(2,812,656)
Shared equity on notes sold to market	-	(153,757)
Amortization of discount included in interest income	(1,278,747)	(1,256,678)
(Increase) decrease in accounts receivable	(39,761)	211,376
Increase (decrease) in accounts payable	(13,990)	22,385
Increase in accrued payroll	8,795	-
Net cash flows from operating activities	1,804,399	148,578
Net cash flows from investing activities:		
Purchases of investments	(3,133,545)	(1,643,497)
Proceeds from sales of investments	2,774,518	833,751
Cash received for notes sold to market	-	290,257
Cash paid for additional subsidies to keep homes in the affordable program	(1,423,060)	(357,594)
Net cash flows used in investing activities	(1,782,087)	(877,083)
Net increase (decrease) in cash and cash equivalents	22,312	(728,505)
Cash and cash equivalents:		
Beginning of year	617,037	1,345,542
End of year	$ 639,349	$ 617,037

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 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:

> <u>Net assets without donor restrictions</u> - Net assets available for use in general operations and not subject to donor restrictions.
>
> <u>Net assets with donor restrictions</u> - 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 those 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, 2021 and 2020.

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

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.

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, 2021 and 2020.

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, 2021 and 2020.

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

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.

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, 2021 and 2020.

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, 2021 and 2020.

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.

Upcoming accounting pronouncements:
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 financial statements and disclosures.

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. Fair value is based upon independent market prices or appraised values of the collateral and, accordingly, notes receivable are classified as Level 2 (see Fair Value Hierarchy in Note 1). 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 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.

NOTE 2 – NOTES RECEIVABLE - CONTINUED

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, 2021 and 2020, there were 548 and 539 notes outstanding with an average face amount of $86,954 and $80,809, respectively.

The change in the discount on notes receivable for each of the years ended December 31, 2021 and 2020 consists of the following:

	2021	2020
Beginning balance	$ 6,760,953	$ 6,963,765
Discounts on new notes	867,999	1,053,866
Amortization expense reported as interest income	(1,278,747)	(1,256,678)
Ending balance	$ 6,350,205	$ 6,760,953

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 years ended December 31, 2021 and 2020, the Foundation's investments consist of certificates of deposit, mutual funds, and exchange-traded products held in a Raymond James 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.

NOTE 3 – INVESTMENTS - CONTINUED

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

	2021		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Portfolio investment pools	$ -	$ 3,226,058	$ 3,226,058
Mutual funds	1,300,665	-	1,300,665
Exchange-traded products	76,839	-	76,839
Certificates of deposit	225,344	-	225,344
Total	$ 1,602,848	$ 3,226,058	$ 4,828,906

	2020		
	Fair Value Measurements Using Input Type		
	Level 1	Level 2	Total
Portfolio investment pools	$ -	$ 2,529,437	$ 2,529,437
Mutual funds	800,912	-	800,912
Exchange-traded products	118,824	-	118,824
Certificates of deposit	704,266	-	704,266
Total	$ 1,624,002	$ 2,529,437	$ 4,153,439

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, 2021 and 2020 are as follows:

	2021	2020
In-kind support	$ 44,509	$ 19,534
In-kind expenses:		
Facilities - general and administration	$ 5,359	$ 5,359
Professional services:		
Affordable housing	25,425	1,500
Community investment	9,375	-
General and administration	4,350	12,675
Total in-kind expenses	$ 44,509	$ 19,534

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 $44,509 and $19,534 for the years ended December 31, 2021 and 2020, respectively (see Note 4).

NOTE 6 - 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 builder 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 builder affordable housing contributions will cease, and the Foundation will have to rely on its other sources of income for sustainability. The Foundation will maintain sustainability through community assessment fees, shared equity revenue on sales, transaction fees covering the costs of those transactions (such as fees on sale), and through the stewardship fee in the newly established restrictive covenant.

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NOTE 7 – 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. The Foundation has estimated the amount of cash to be received for notes receivable sold to market within one year of the statement of financial position date. Financial assets available for general expenditures within one year from December 31, 2021 and 2020 are as follows:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	$ 639,349	$ 617,037
Accounts receivable	53,374	13,613
Investments	4,828,906	4,153,439
Notes receivable	1,373,377	300,000
Financial assets available to meet general expenditures over the next year	$ 6,895,006	$ 5,084,089

NOTE 7 – LIQUIDITY AND AVAILABILITY - CONTINUED

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 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 4, 2022, the date on which the financial statements were available to be issued.