

MUELLER FOUNDATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

**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, 2015, 2014, and 2013, 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, 2015, 2014, and 2013, 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
April 24, 2018

**MUELLER FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015, 2014, AND 2013**

ASSETS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 32,293	\$ 74,759	\$ 47,107
Accounts receivable	222,070	32,845	82,274
Investments (Note 3)	1,697,877	1,674,104	1,688,281
Notes receivable, net (Note 2)	<u>18,346,933</u>	<u>15,940,057</u>	<u>11,358,473</u>
 Total assets	 <u>\$ 20,299,173</u>	 <u>\$ 17,721,765</u>	 <u>\$ 13,176,135</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ <u>79,378</u>	\$ <u>-</u>	\$ <u>38,508</u>
Total liabilities	79,378	-	38,508
 Total unrestricted net assets	 <u>20,219,795</u>	 <u>17,721,765</u>	 <u>13,137,627</u>
 Total liabilities and net assets	 <u>\$ 20,299,173</u>	 <u>\$ 17,721,765</u>	 <u>\$ 13,176,135</u>

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

MUELLER FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenue, support and gains:			
Shared equity	\$ 1,699,392	\$ 3,908,159	\$ 2,746,239
Interest income (Note 2)	822,864	632,732	1,075,894
Community assessment fees	510,684	160,618	345,751
Builder affordability fees	194,550	222,576	62,325
Investment income (Note 3)	-	63,128	141,555
Grants	25,000	-	-
In-kind support (Note 4)	27,387	23,339	8,093
Other income	-	3,997	-
	<u>3,279,877</u>	<u>5,014,549</u>	<u>4,379,857</u>
Total revenue, support and gains			
Expenses and losses:			
Affordable housing program	324,062	138,688	108,871
Community investment program	123,774	158,301	13,879
Investment losses (Note 3)	136,233	-	-
General and administrative	197,778	133,422	144,596
	<u>781,847</u>	<u>430,411</u>	<u>267,346</u>
Total expenses and losses			
Change in net assets	2,498,030	4,584,138	4,112,511
Unrestricted net assets:			
Beginning of year:	<u>17,721,765</u>	<u>13,137,627</u>	<u>9,025,116</u>
End of year	<u>\$ 20,219,795</u>	<u>\$ 17,721,765</u>	<u>\$ 13,137,627</u>

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

MUELLER FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:			
Change in net assets	\$ 2,498,030	\$ 4,584,138	\$ 4,112,511
Adjustments to reconcile changes in net assets to net cash flows from operating activities:			
Reinvested interest and dividends net of fees	(14,671)	(14,537)	(17,313)
Realized gains on investments	(24,470)	(61,037)	(17,417)
Unrealized (gain) loss on investments	195,207	22,920	(92,626)
Shared equity recognized on issuance of notes receivable, net	(1,566,846)	(3,865,553)	(2,727,720)
Shared equity on notes sold to market	(141,018)	(26,544)	(35,004)
Amortization of discount included in interest income	(822,864)	(632,732)	(1,075,894)
(Increase) decrease in:			
Accounts receivable	(119,424)	49,429	84,441
Increase (decrease) in:			
Accounts payable	<u>79,378</u>	<u>(38,508)</u>	<u>38,508</u>
Net cash flows from operating activities	<u>83,322</u>	<u>17,576</u>	<u>269,486</u>
Net cash flows from investing activities:			
Purchases of investments	(661,282)	(333,169)	(492,055)
Proceeds from sales of investments	481,443	400,000	200,000
Cash received for notes sold to market	244,857	63,054	117,524
Cash paid for additional subsidies to keep homes in the affordable program	<u>(190,806)</u>	<u>(119,809)</u>	<u>(47,848)</u>
Net cash flows from investing activities	<u>(125,788)</u>	<u>10,076</u>	<u>(222,379)</u>
Net increase (decrease) in cash and cash equivalents	(42,466)	27,652	47,107
Cash and cash equivalents:			
Beginning of year	<u>74,759</u>	<u>47,107</u>	<u>-</u>
End of year	<u>\$ 32,293</u>	<u>\$ 74,759</u>	<u>\$ 47,107</u>
Supplemental disclosure of noncash transactions:			
Increase in accounts receivable through decrease in notes receivable	<u>\$ 69,801</u>	<u>\$ -</u>	<u>\$ -</u>

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

**MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013**

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 area of the City of Austin, Texas, promote and increase the availability of quality neighborhood schools and lifelong education programs, and to create open space and parks and job training programs in the Mueller Master Community Development area.

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, 2015, 2014, and 2013.

MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

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, 2015, 2014, and 2013.

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, 2015, 2014, and 2013.

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, 2015, 2014, and 2013.

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.

**MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013**

**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 contingent 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, 2015, 2014, and 2013.

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, 2015, 2014, and 2013.

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.

**MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013**

**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.

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.

In the instance of a subsequent sale of the home to a another participant in the program, any gain or loss from 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 gain from the sale. The prescribed share of the gain or loss from the sale to a buyer outside the program 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, 2015, 2014 and 2013, there were 304, 281 and 214 notes outstanding with an average face amount of \$77,337, \$75,220 and \$70,430, respectively.

MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013

NOTE 2 – NOTES RECEIVABLE - CONTINUED

As of December 31, 2015, 2014 and 2013 the notes receivable balance is comprised as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Notes receivable, gross	\$ 23,510,505	\$ 21,136,759	\$ 15,072,053
Discount on notes receivable	<u>(5,163,572)</u>	<u>(5,196,702)</u>	<u>(3,713,580)</u>
Notes receivable, net	<u>\$ 18,346,933</u>	<u>\$ 15,940,057</u>	<u>\$ 11,358,473</u>

The change in the discount on notes receivable for each of the years ended December 31, 2015, 2014, and 2013 consists of the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 5,196,702	\$ 3,713,580	\$ 3,483,719
Discounts on new notes	789,734	2,115,854	1,305,755
Amortization expense reported as interest income	<u>(822,864)</u>	<u>(632,732)</u>	<u>(1,075,894)</u>
Ending balance	<u>\$ 5,163,572</u>	<u>\$ 5,196,702</u>	<u>\$ 3,713,580</u>

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

The Foundation's investments are held in two funds with Austin Community Foundation (ACF). All of the income and principal of both ACF funds are available to the Foundation for distribution at any point in time. The Foundation has classified these funds as unrestricted and they are considered Level 2 investments. The tables below summarize these investments recognized at fair value at December 31:

	<u>2015</u>	
	Fair Value Measurements	
	Using Input Type	
	<u>Level 2</u>	<u>Total</u>
Portfolio investment pools	<u>\$ 1,697,877</u>	<u>\$ 1,697,877</u>

**MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013**

NOTE 3 – INVESTMENTS – CONTINUED

	2014	
	Fair Value Measurements Using Input Type	
	Level 2	Total
Portfolio investment pools	\$ <u>1,674,104</u>	\$ <u>1,674,104</u>
	2013	
	Fair Value Measurements Using Input Type	
	Level 2	Total
Portfolio investment pools	\$ <u>1,688,281</u>	\$ <u>1,688,281</u>

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, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
In-kind support	\$ <u>27,387</u>	\$ <u>23,339</u>	\$ <u>8,093</u>
In-kind expenses:			
Facilities - general and administration	\$ 4,643	\$ 4,643	\$ 4,643
Professional services:			
Affordable housing	8,200	3,600	300
Community investment	2,394	12,096	-
General and administration	12,150	3,000	3,150
Total in-kind expenses	\$ <u>27,387</u>	\$ <u>23,339</u>	\$ <u>8,093</u>

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.

**MUELLER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013**

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 is an outgrowth of the Mueller Redevelopment Master Plan, which receives its primary support from the Master Developer. The Master Developer along with the city of Austin has worked for many years to create and implement the urban village of the Mueller community. 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 community, 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 \$24,993, \$11,243 and \$8,093 for the years ended December 31, 2015, 2014, and 2013, respectively.

NOTE 7 - DATE OF MANAGEMENT EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 24, 2018, the date on which the financial statements were available to be issued.