

**Project Row Houses**

Financial Statements  
and Independent Auditors' Report  
for the years ended August 31, 2022 and 2021

**Project Row Houses**

Table of Contents

---

	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statements of Financial Position as of August 31, 2022 and 2021	3
Statement of Activities for the year ended August 31, 2022	4
Statement of Activities for the year ended August 31, 2021	5
Statement of Functional Expenses for the year ended August 31, 2022	6
Statement of Functional Expenses for the year ended August 31, 2021	7
Statements of Cash Flows for the years ended August 31, 2022 and 2021	8
Notes to Financial Statements for the years ended August 31, 2022 and 2021	9

---

**Independent Auditors' Report**

To the Board of Directors of  
Project Row Houses:

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of Project Row Houses, which comprise the statements of financial position as of August 31, 2022 and 2021, and the related statements of activities, of functional expenses, and of 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 Project Row Houses as of August 31, 2022 and 2021, and the changes in its net assets and its 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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Project Row Houses 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.

***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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Project Row Houses' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Project Row Houses' 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 Project Row Houses' 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.

**DATE OPEN PENDING MANAGEMENT REVIEW AND APPROVAL**

**Project Row Houses**Statements of Financial Position as of August 31, 2022 and 2021

---

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash (Note 4)	\$ 8,883,494	\$ 8,325,761
Contributions receivable – operations (Note 5)	180,558	386,235
Prepaid and other assets	46,269	45,651
Investments (Note 6)	3,025,295	
Contributions receivable – property renovations (Note 5)	684,723	50,000
Property and equipment, net (Note 7)	<u>4,788,478</u>	<u>1,868,113</u>
<b>TOTAL ASSETS</b>	<b><u>\$17,608,817</u></b>	<b><u>\$10,675,760</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 244,668	\$ 170,352
Construction payable	<u>806,312</u>	<u>81,043</u>
Total liabilities	<u>1,050,980</u>	<u>251,395</u>
Commitments (Note 8)		
Net assets:		
Without donor restrictions	7,416,824	8,917,008
With donor restrictions (Note 9)	<u>9,141,013</u>	<u>1,507,357</u>
Total net assets	<u>16,557,837</u>	<u>10,424,365</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$17,608,817</u></b>	<b><u>\$10,675,760</u></b>

*See accompanying notes to financial statements.*

---

**Project Row Houses**Statement of Activities for the year ended August 31, 2022

---

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions and grants	\$ 427,102	\$ 8,236,055	\$ 8,663,157
Rental income	79,965		79,965
Net investment return	31,671		31,671
Other	<u>2,531</u>		<u>2,531</u>
Total revenue	541,269	8,236,055	8,777,324
Net assets released from restrictions:			
Program expenditures	363,220	(363,220)	
Expiration of time restrictions	223,585	(223,585)	
Capital expenditures	<u>15,594</u>	<u>(15,594)</u>	
Total	<u>1,143,668</u>	<u>7,633,656</u>	<u>8,777,324</u>
EXPENSES:			
Program services	1,671,895		1,671,895
Management and general	599,551		599,551
Fundraising	<u>372,406</u>		<u>372,406</u>
Total expenses	<u>2,643,852</u>		<u>2,643,852</u>
CHANGES IN NET ASSETS	(1,500,184)	7,633,656	6,133,472
Net assets, beginning of year	<u>8,917,008</u>	<u>1,507,357</u>	<u>10,424,365</u>
Net assets, end of year	<u>\$ 7,416,824</u>	<u>\$ 9,141,013</u>	<u>\$16,557,837</u>

*See accompanying notes to financial statements.*

---

**Project Row Houses**Statement of Activities for the year ended August 31, 2021

---

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions and grants	\$ 7,963,123	\$ 1,062,587	\$ 9,025,710
Rental income	110,820		110,820
Other	<u>10,504</u>	<u>          </u>	<u>10,504</u>
Total revenue	8,084,447	1,062,587	9,147,034
Net assets released from restrictions:			
Program expenditures	850,615	(850,615)	
Expiration of time restrictions	259,532	(259,532)	
Capital expenditures	<u>15,594</u>	<u>(15,594)</u>	<u>          </u>
Total	<u>9,210,188</u>	<u>(63,154)</u>	<u>9,147,034</u>
EXPENSES:			
Program services	1,026,752		1,026,752
Management and general	368,367		368,367
Fundraising	<u>150,566</u>		<u>150,566</u>
Total expenses	<u>1,545,685</u>		<u>1,545,685</u>
CHANGES IN NET ASSETS	7,664,503	(63,154)	7,601,349
Net assets, beginning of year	<u>1,252,505</u>	<u>1,570,511</u>	<u>2,823,016</u>
Net assets, end of year	<u>\$ 8,917,008</u>	<u>\$ 1,507,357</u>	<u>\$10,424,365</u>

*See accompanying notes to financial statements.*

---

**Project Row Houses**Statement of Functional Expenses for the year ended August 31, 2022

---

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 823,173	\$ 132,529	\$ 171,044	\$ 1,126,746
Professional fees and contract services	304,783	339,594	116,379	760,756
Repairs and maintenance	105,718	12,664	19,272	137,654
Utilities	82,697	9,906	15,075	107,678
Insurance	77,090	9,235	14,053	100,378
Supplies	80,993	6,549	9,966	97,508
Depreciation	62,988	7,545	11,482	82,015
Conference and travel	58,975	7,065	10,751	76,791
Direct assistance	35,229			35,229
Occupancy	24,049	2,881	4,384	31,314
Membership dues		25,867		25,867
Interest and related fees		13,926		13,926
Other	<u>16,200</u>	<u>31,790</u>		<u>47,990</u>
Total expenses	<u>\$ 1,671,895</u>	<u>\$ 599,551</u>	<u>\$ 372,406</u>	<u>\$ 2,643,852</u>

*See accompanying notes to financial statements.*

---

**Project Row Houses**Statement of Functional Expenses for the year ended August 31, 2021

---

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 388,540	\$ 84,635	\$ 36,601	\$ 509,776
Professional fees and contract services	268,430	183,614	84,524	536,568
Repairs and maintenance	56,321	11,701	5,385	73,407
Utilities	73,060	15,179	6,986	95,225
Insurance	75,564	15,699	7,225	98,488
Supplies	51,948	3,942	1,814	57,704
Depreciation	53,298	11,073	5,096	69,467
Conference and travel	12,355	2,567	1,181	16,103
Direct assistance	11,238			11,238
Occupancy	7,642	1,588	731	9,961
Membership dues		18,736		18,736
Interest and related fees		8,838		8,838
Donations	15,000			15,000
Property taxes	10,704	2,224	1,023	13,951
Other	<u>2,652</u>	<u>8,571</u>	<u></u>	<u>11,223</u>
Total expenses	<u>\$ 1,026,752</u>	<u>\$ 368,367</u>	<u>\$ 150,566</u>	<u>\$ 1,545,685</u>

*See accompanying notes to financial statements.*

---

**Project Row Houses**Statements of Cash Flows for the years ended August 31, 2022 and 2021

---

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 6,133,472	\$ 7,601,349
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for property and equipment	(7,791,304)	(535,533)
Depreciation	82,015	69,467
Unrealized investment gain	(19,174)	
Refundable advance – Paycheck Protection Program		(105,100)
Changes in operating assets and liabilities:		
Contributions receivable	205,677	96,882
Prepaid and other assets	(618)	(21,456)
Accounts payable and accrued expenses	<u>74,316</u>	<u>161,559</u>
Net cash provided (used) by operating activities	<u>(1,315,616)</u>	<u>7,267,168</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,277,111)	(482,449)
Investment purchases	(1,748,355)	
Investment sales	82,219	
Changes in money market mutual funds	<u>(1,339,985)</u>	<u>                    </u>
Net cash used by investing activities	<u>(5,283,232)</u>	<u>(482,449)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for property and equipment	<u>7,156,581</u>	<u>485,533</u>
NET CHANGE IN CASH	557,733	7,270,252
Cash, beginning of year	<u>8,325,761</u>	<u>1,055,509</u>
Cash, end of year	<u>\$ 8,883,494</u>	<u>\$ 8,325,761</u>

*See accompanying notes to financial statements.*

---

## **Project Row Houses**

Notes to Financial Statements for the years ended August 31, 2022 and 2021

---

### **NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization – Project Row Houses (PRH) is a Texas nonprofit corporation organized in 1993 as a neighborhood-based public project on an abandoned 1½ block site of 22 “shotgun” style homes in Houston’s historic Third Ward neighborhood. PRH’s mission is to empower people and enrich communities through art, engagement, and direct action.

PRH operates within the following programmatic areas:

*Community Enrichment Programs* include the Young Mother’s Residential Program which serves single mothers and their children and offers a two-year program under the guidance of a mentor who lives on site and social services professionals. These families are provided housing in a fully-furnished, shotgun house owned by PRH, counseling, and workshops while they work and further their education; Tutoring on Monday nights for students of all ages; Artist Studios and Small Business Incubations which support artists and entrepreneurs with low-cost rental space; Education includes arts and life skills classes for adults instructed by some of Houston’s most talented artists and other professionals in their fields; the Integrated Services Program supports families by providing counseling/coaching and referral for income support, wealth building and employment services; and Archives which tell the stories of PRH and the neighborhood.

*Art Programs* include commissioned projects, residencies and fellowships that engage a diverse community of emerging and established local, national and international artists. Seven row houses serve as installation spaces three times a year. Performance-based works are presented by contemporary artists; residencies cultivate a new generation of artists with socially engaged practices; and the CASE-PRH fellowship builds on PRH’s history of leadership in social practice and community-engaged art projects.

*Neighborhood Development* activities include strategic partnerships to support the development and implementation of a comprehensive neighborhood revitalization strategy for historic Third Ward. PRH participates in collaborations to prevent the displacement of long-time residents and enhance their economic and social well-being.

*Eldorado Building* was built in 1939 and includes the Eldorado Ballroom which presented the nation’s best Blues, Jazz, and Big Bands from the 1940’s to 1970’s (B.B. King, Sam “Lightning” Hopkins, and Tina Turner, among many others). The building has been renovated and the second-floor ballroom is used for PRH and community partners’ programming, community and other rental events while the ground floor spaces are used for exhibitions, meetings, PRH archives, and small businesses and incubation spaces.

Federal income tax status – PRH is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are, if material, discounted to estimate the present value of future cash flows. Discounts are computed using the risk-free interest rates applicable to the years in which the promises are received and are amortized as contribution revenue. An allowance for uncollectible contributions receivable is provided when it is believed that individual contributions may not be collected in full.

Property and equipment is reported at cost, if purchased, and at fair value at the date of gift, if donated. Depreciation is recognized on a straight-line basis over estimated useful lives of 5 to 39 years. Expenditures greater than \$5,000 with a useful life greater than one year are capitalized.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction.

Contributions and grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are subject to one or more barriers that must be overcome before PRH is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Rental income is recognized in the period services are provided.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and benefits are allocated on the basis of estimated time and effort expended. Depreciation expense, occupancy costs, insurance, and other costs are directly charged when related to a specific function and allocated on the basis of full-time equivalents when more than one activity is benefitted.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

**NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of August 31 comprise the following:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash	\$ 8,883,494	\$ 8,325,761
Contributions receivable, net	865,281	436,235
Other assets	10,180	21,165
Investments	<u>3,025,295</u>	<u>                    </u>
Total financial assets	12,784,250	8,783,161
Less financial assets not available for general expenditure:		
Cash restricted for long-term purposes	(5,229,285)	
Contributions receivable restricted for long-term purposes	(684,723)	(50,000)
Purpose-restricted net assets not expected to be expended in the coming year	<u>(51,200)</u>	<u>(56,000)</u>
Total financial assets available for general expenditure	<u>\$ 6,819,042</u>	<u>\$ 8,677,161</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, PRH considers all expenditures related to its ongoing activities of community enrichment, arts, neighborhood development programs, and costs to maintain the Eldorado Building, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Financial assets available to meet cash needs for general expenditures within one year at August 31, 2022 include cash, receivables and investments. This includes cash which is restricted for program purposes, but expected to be used in the next fiscal year.

**NOTE 3 – RELATED PARTY TRANSACTIONS**

PRH and PRH Preservation, Inc. (PRH Preservation), a nonprofit organization formed in 2018, are affiliated entities. PRH and a foundation elect an equal number of PRH Preservation's Board of Directors. During 2022 and 2021, the Executive Director of PRH was a member of PRH Preservation's Board of Directors.

Row House CDC (RHCDC) is a Texas nonprofit corporation established to, among other things, expand opportunities available to low and moderate income residents in the Greater Third Ward. During 2021, the Executive Director of PRH became the interim Executive Director of RHCDC.

**NOTE 4 – CASH CONCENTRATIONS**

At August 31, 2022 and 2021, demand deposits exceed the federally insured limit per depositor per institution.

**NOTE 5 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable at August 31, 2022 are due as follows:

Receivable in less than one year	\$ 814,081
Receivable in one to five years	<u>51,200</u>
Total contributions receivable	<u>\$ 865,281</u>

Receivables from one donor in 2022 and five donors in 2021 represented 56% and 94% of total contributions receivable, respectively. Contributions from two donors in 2022 and 2021, respectively, represented 62% and 73% of total contributions.

**NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at August 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Money market mutual funds	\$ 1,339,985			\$ 1,339,985
Common stock:				
Information technology	291,316			291,316
Healthcare	207,799			207,799
Financial services	182,334			182,334
Industrial goods and services	150,784			150,784
Consumer discretionary	105,747			105,747
Real estate	67,294			67,294
Materials	60,065			60,065
Utilities	55,281			55,281
Communication services	48,701			48,701
Consumer staples	45,925			45,925
Energy	34,488			34,488
Other	7,300			7,300
Fixed-income exchange-traded funds		<u>\$ 428,276</u>		<u>428,276</u>
Total assets measured at fair value	<u>\$ 2,597,019</u>	<u>\$ 428,276</u>	<u>\$ 0</u>	<u>\$ 3,025,295</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value.
- *Common stock* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the PRH believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

#### **NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment are comprised of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 225,514	\$ 150,514
Construction in progress	3,243,241	414,763
Buildings and improvements	2,394,654	2,350,921
Furniture and equipment	<u>211,620</u>	<u>156,450</u>
Total property and equipment, at cost	6,075,029	3,072,648
Accumulated depreciation	<u>(1,286,551)</u>	<u>(1,204,535)</u>
Property and equipment, net	<u>\$ 4,788,478</u>	<u>\$ 1,868,113</u>

#### **NOTE 8 – NOTE PAYABLE**

In October 2019, PRH entered into a \$1,000,000 line of credit agreement with a bank. The line was renewed in January 2023, expires in January 2024 and has an interest rate of prime plus .25% with a floor of 3.5%. The interest rate is 5.75% as of August 31, 2022.

**NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Eldorado Ballroom	\$ 8,569,687	\$ 792,083
Third Ward Cultural District	203,423	
PRH Institute	141,446	141,446
Financial Opportunity Center	68,035	
Cultural Institute	56,000	98,924
Technical assistance	39,562	60,000
Future time periods	25,000	248,585
Young Mother’s Residential Program	17,478	54,796
Division Street property	12,461	13,055
Integrated Service Delivery		79,584
Other	<u>7,921</u>	<u>18,884</u>
Total net assets with donor restrictions	<u>\$ 9,141,013</u>	<u>\$ 1,507,357</u>

**NOTE 10 – SUBSEQUENT EVENTS**

In November 1999, PRH obtained use of the Eldorado Ballroom under a special warranty deed from a third-party grantor. Under the terms of the deed, another not-for-profit organization was granted a reversionary interest in the property. In December 2022, PRH purchased this interest from the organization for \$1,200,000.

Management has evaluated subsequent events through **DATE OPEN**, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than the line of credit renewal described in Note 8 and the above described purchase transaction, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.