

HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY

FINANCIAL STATEMENTS

June 30, 2016 and 2015

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2016 and 2015

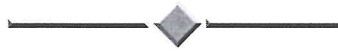


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Independent Auditors' Report

Board of Directors

Habitat for Humanity Northwest Harris County

We have audited the accompanying financial statements of Habitat for Humanity Northwest Harris County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditors' 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 audit 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 auditors' 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 entity'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 entity'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 Habitat for Humanity Northwest Harris County as of June 30, 2016 and 2015, 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.

A handwritten signature in cursive script that reads "Kolkhont & Kolkhont". The signature is written in dark ink and is positioned to the right of the date and location text.

Houston, Texas
November 10, 2016

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,418,854	\$ 1,327,907
Mortgage receivable, net	3,053,690	3,124,523
Prepaid expenses	97,327	94,181
Inventory	73,321	109,545
Construction in progress	337,896	226,216
Land held for future construction	382,916	522,491
Furniture, equipment, and leasehold improvements, net	334,288	227,005
Other assets	-	26,504
	<u>5,698,292</u>	<u>5,658,372</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 45,211	\$ 105,886
Accrued liabilities	54,933	46,241
Escrow funds	206,763	220,593
Note payable	82,777	284,184
	<u>389,684</u>	<u>656,904</u>
NET ASSETS		
Unrestricted net assets	<u>5,308,608</u>	<u>5,001,468</u>
	<u>\$ 5,698,292</u>	<u>\$ 5,658,372</u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the years ended

	June 30,	
	2016	2015
	Total	Total
	Unrestricted	Unrestricted
Public support and revenues		
Contributions from donors and foundations	\$ 598,270	\$ 764,374
Special events	165,228	138,029
In-kind contributions	-	28,000
Sale of homes, net of discount of \$394,400	260,800	321,182
Amortization of mortgage discounts	350,571	360,110
Merchandise sales	2,631,118	2,362,424
Deconstruction revenue	799,500	776,500
Miscellaneous	21,457	33,053
Total public support and revenues	<u>4,826,944</u>	<u>4,783,672</u>
Expenses		
Program services	4,209,273	4,094,568
Management and general	158,900	114,802
Fundraising	<u>151,631</u>	<u>170,927</u>
Total expenses	<u>4,519,804</u>	<u>4,380,297</u>
Change in net assets	307,140	403,375
Net assets, beginning of year	<u>5,001,468</u>	<u>4,598,093</u>
Net assets, end of year	\$ <u><u>5,308,608</u></u>	\$ <u><u>5,001,468</u></u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Construction	Restore	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 392,400	\$ 621,945	\$ 1,014,345	\$ 54,413	\$ 109,976	\$ 1,178,734
Construction costs	656,901	-	656,901	-	-	656,901
Cost of sales	-	116,609	116,609	-	-	116,609
Demolition costs	-	973,233	973,233	-	-	973,233
Depreciation expenses	14,827	61,058	75,885	-	-	75,885
Equipment rental	385	8,935	9,320	-	-	9,320
Insurance	26,711	62,126	88,837	3,825	2,235	94,897
Interest	12,062	-	12,062	-	-	12,062
Office expense	3,015	7,262	10,277	9,309	3,369	22,955
Postage	-	-	-	1,636	2,418	4,054
Printing and newsletters	-	495	495	1,346	7,535	9,376
Professional fees & contract labor	73,522	301,545	375,067	18,063	-	393,130
Project recycling	-	13,302	13,302	-	-	13,302
Public relations	47,518	-	47,518	-	11,880	59,398
Rent	30,392	459,015	489,407	4,676	11,688	505,771
Repairs and maintenance	39,155	30,878	70,033	2,141	-	72,174
Small tools	7,586	4,862	12,448	-	-	12,448
Supplies	28,783	26,632	55,415	-	-	55,415
Property taxes	11,527	-	11,527	-	-	11,527
Contribution to HFHI	48,731	-	48,731	-	-	48,731
Training and education	-	-	-	1,495	-	1,495
Travel	8,665	44,714	53,379	5,864	2,056	61,299
Utilities	4,163	52,342	56,505	121	121	56,747
Gain on disposal of assets	(15,072)	-	(15,072)	-	-	(15,072)
Other	16,558	16,491	33,049	56,011	353	89,413
Total Expenses	\$ 1,407,829	\$ 2,801,444	\$ 4,209,273	\$ 158,900	\$ 151,631	\$ 4,519,804

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2015

	Construction	Restore	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 191,521	\$ 629,069	\$ 820,590	\$ 38,915	\$ 116,296	\$ 975,801
Construction costs	984,125	-	984,125	-	-	984,125
Cost of sales	-	56,412	56,412	-	-	56,412
Demolition costs	-	739,060	739,060	-	-	739,060
Depreciation expenses	13,322	48,100	61,422	-	-	61,422
Equipment rental	17,620	22,694	40,314	-	-	40,314
Insurance	12,754	24,864	37,618	9,995	1,196	48,809
Interest	24,363	-	24,363	-	-	24,363
Office expense	3,982	6,129	10,111	5,369	4,947	20,427
Postage	22	-	22	967	1,550	2,539
Printing and newsletters	97	386	483	4,789	10,191	15,463
Professional fees & contract labor	36,911	316,020	352,931	16,317	-	369,248
Project recycling	-	23,861	23,861	-	-	23,861
Public relations	19,816	-	19,816	-	9,909	29,725
Rent	26,541	481,238	507,779	3,792	18,958	530,529
Repairs and maintenance	38,625	37,775	76,400	683	-	77,083
Small tools	5,435	3,224	8,659	-	-	8,659
Supplies	30,249	23,419	53,668	-	-	53,668
Property taxes	17,437	-	17,437	-	-	17,437
Contribution to HFHI	44,000	-	44,000	-	-	44,000
Training and education	573	-	573	2,289	1,623	4,485
Travel	6,967	47,198	54,165	5,357	2,736	62,258
Utilities	9,091	85,041	94,132	924	924	95,980
Loss on disposal of assets	11,764	-	11,764	-	-	11,764
Other	16,372	38,491	54,863	25,405	2,597	82,865
Total Expenses	\$ 1,511,587	\$ 2,582,981	\$ 4,094,568	\$ 114,802	\$ 170,927	\$ 4,380,297

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 307,140	\$ 403,375
Adjustments to reconcile net change in net assets to net cash used by operating activities:		
Depreciation	75,885	61,422
Loss on disposal of assets	(15,072)	11,764
Sale of homes	(260,800)	(321,182)
Amortization of discount	(350,571)	(360,110)
Changes in assets and liabilities that provided (used) cash:		
Prepaid expenses	(3,146)	(11,265)
Inventory	36,224	(99,055)
Construction in progress	(111,680)	19,404
Land held for future construction	139,575	196,275
Other assets	26,504	-
Accounts payable	(60,675)	7,666
Accrued liabilities	8,692	(18,789)
Escrow funds	(13,830)	(65,710)
Net cash used by operating activities	<u>(221,754)</u>	<u>(176,205)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on mortgages receivable	702,676	539,764
Purchase of property and equipment	<u>(183,168)</u>	<u>(56,709)</u>
Net cash provided by investing activities	<u>519,508</u>	<u>483,055</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments made on note payable	<u>(201,407)</u>	<u>(250,051)</u>
Net cash used in financing activities	<u>(201,407)</u>	<u>(250,051)</u>
NET INCREASE IN CASH	96,347	56,799
CASH - beginning of year	<u>1,327,907</u>	<u>1,271,108</u>
CASH - end of year	<u>\$ 1,424,254</u>	<u>\$ 1,327,907</u>
Supplemental disclosures		
Interest paid	\$ 12,062	\$ 23,859

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity Northwest Harris County (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Business

The Organization was incorporated on February 21, 1989 to encourage, promote, and assist in the building and redevelopment of low-income housing in Cypress-Fairbanks, Klein, Spring, and Tomball school districts. The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make a decent shelter a matter of conscience with people everywhere. Although HFHI assists with information, resources, training, publications and prayer support, the Organization is primarily and directly responsible for its operations.

The Organization's purpose is accomplished through a privately operated and financed program to sell such housing to low-income persons at or below actual cost utilizing non-interest bearing mortgage loans. The Organization expects to finance its operations through continuing contributions and mortgage payment receipts.

The Organization has established the ReStore program to operate a resale store in order to generate additional income and to extend the mission of the Organization by providing low cost donated materials for low income homeowners to repair and improve their houses. The Organization accepts donations of building materials, supplies, furniture and appliances for the store and also receives inventory from deconstructed homes where the donor pays the Organization for deconstruction services and the Organization retains usable items from the deconstructed homes.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents. Included in cash and cash equivalents are homeowners' escrow payments for insurance and real estate taxes and deposits held for future homeowners.

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgages Receivable, Net

Mortgages receivable, net represents the amount charged to the homeowner for houses built and secured with real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. Generally, the Organization's mortgages are non-interest-bearing. The mortgage receivable balance has been discounted to reflect the economic value using interest rates ranging from 7.4% to 9% based on prevailing market rates in the year the mortgage was originated. This discount is recognized as income over the life of the mortgage, utilizing the straight-line method.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and mortgages receivable. The Organization places its cash with high credit quality financial institutions. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institutions. The Organization maintains cash accounts in excess of \$250,000 at a single financial institution. The Federal Deposit Insurance Corporation (FDIC) standard insurance amount is \$250,000 and balances in excess of this amount are subject to risk. The balance in excess of FDIC coverage at June 30, 2016 was \$1,273,419.

Mortgages receivable from homeowners are closely monitored for collectability. The Organization has a formal plan for notifying and working with homeowners that become past due. The Organization commences foreclosure proceedings if a mortgage becomes more than seventy days past due and a mutually acceptable payment plan has not been reached. Management believes no allowance for uncollectible accounts is necessary at June 30, 2016 and 2015.

Inventory

Inventory consists of purchased building materials, furniture, and other merchandise available for sale. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Donated inventory is considered not to have value until it is sold.

Construction in Progress

Construction in progress includes direct costs of materials and labor incurred on homes while under the construction phase until the sale of the home to the homeowner is closed.

Land Held for Future Construction

Land held for future construction includes the cost of land and related construction site readiness costs such as concrete, security fencing and landscaping. When homes are completed and the sale of the home to the homeowner has closed, the applicable cost of the lot is reported as construction costs.

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Buildings and equipment used in operations are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Computers and vehicles	3-5 years
Office equipment & furniture	5-7 years
Warehouse equipment	5-10 years
Leasehold improvements	5 years

Escrow Funds

Homeowner payments are held in escrow for insurance, real estate taxes, and homeowners association dues until remitted to the various vendors.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Organization is subject to taxes on unrelated business income. During 2016 and 2015, there was no unrelated business income.

The Organization believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of June 30, 2016, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2013 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

Net Assets

Information regarding the financial position and activities of the Organization is reported in three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets - consist of contributed funds subject to donor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent. As of June 30, 2016 and 2015, the Organization did not have any temporarily restricted net assets.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations. As of June 30, 2016 and 2015, the Organization did not have any permanently restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. 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. When a restriction is met in the same year as the restricted contribution, the contribution is treated as an unrestricted contribution. Permanently restricted contributions consist of amounts to be held perpetually, based on donor-imposed requirements.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization reports gifts of goods and services at the fair market value of the donation when a clear objective basis of determining the value is available. A substantial number of volunteers donate significant contributions of their time to the Organization in the areas of administration, fundraising and house construction. The Organization records the fair value of contributed services that require specialized skills and are provided by individuals with those skills and that would otherwise need to be purchased if not provided by donation. The value of the contributed time not meeting these criteria is not reflected in these financial statements.

For the years ended June 30, 2016 and 2015, the Organization did not receive significant donated services that required specialized skills.

Sale of Homes, Net

Represents the sale of houses built and are recorded at the mortgage amount net of the interest discount.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Organization's multiple functional expenditures.

Date of Management Evaluation

Subsequent events have been evaluate through November 10, 2016, the date the financial statements were available to be issued. Management is of the opinion there are no subsequent events to disclose.

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Receivables due in less than one year \$	497,991	\$ 506,990
Receivables due in one to five years	2,352,450	2,534,948
Thereafter	<u>4,222,358</u>	<u>4,063,265</u>
	7,072,799	7,105,203
Discount	<u>(4,019,109)</u>	<u>(3,980,680)</u>
Mortgages receivable, net	\$ <u><u>3,053,690</u></u>	\$ <u><u>3,124,523</u></u>

NOTE C – CONSTRUCTION IN PROGRESS

Construction in progress represents building materials and labor on houses. The following is a summary of construction in progress at June 30, 2016 and 2015:

	<u>Number</u>	<u>Cost</u>
Homes under construction, June 30, 2014	13	245,620
Costs incurred on homes under construction		201,460
New homes started during the year	14	575,713
Homes transferred during the year	<u>(14)</u>	<u>(796,577)</u>
Homes under construction, June 30, 2015	13	226,216
Costs incurred on homes under construction		159,826
New homes started during the year	4	497,003
Homes transferred during the year	<u>(9)</u>	<u>(545,149)</u>
Homes under construction, June 30, 2016	<u><u>8</u></u>	\$ <u><u>337,896</u></u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE D – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2016 and 2015, the cost and accumulated depreciation of furniture, equipment and leasehold improvement were as follows:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 52,552	\$ 52,552
Office equipment	33,772	33,772
Warehouse equipment	64,623	64,623
Furniture and fixtures	39,353	33,944
Vehicles	318,986	201,177
Leasehold improvements	<u>143,476</u>	<u>86,244</u>
	652,762	472,312
Accumulated depreciation	<u>(318,474)</u>	<u>(245,307)</u>
	<u>\$ 334,288</u>	<u>\$ 227,005</u>

Depreciation expense for year ended June 30, 2016 and 2015 was \$75,885 and \$61,422 respectively.

NOTE E – NOTE PAYABLE

Construction loan payable to a bank providing for maximum borrowings of \$2,737,100 bearing interest at 5.3%, due in monthly installments through January 31, 2012 then principal and interest due monthly based on ten year amortization of balance outstanding at January 31, 2012, maturing December 1, 2017 with a balloon payment due at that date. The note is secured by essentially all assets of the Organization. Principal and interest payments for the year ended 2016 were \$201,407 and \$12,062, respectively. Future principal payments by fiscal year as of June 30, 2016 are:

<u>Year ending June 30,</u>	
2016	\$ 82,777
2017	-
2018	-
2019	-
2020	-
Thereafter	<u>\$ -</u>
	<u>82,777</u>

NOTE F – RELATED PARTIES

HFHI is a charitable 501(c)(3) corporation that donates electrical, paint, and plumbing supplies to the Organization. HFHI is controlled by a Board of Directors separate from that of the Organization; therefore consolidated financial statements are not required. Donations are recorded as in-kind contributions. The amounts recorded during fiscal 2016 and 2015 were \$0 and \$28,000, respectively.

In addition, the Organization elects to tithe a portion of its annual contributions (excluding in-kind and restricted contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2016 and 2015, the Organization contributed \$48,731 and \$44,000 to HFHI, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE F– RELATED PARTIES (Continued)

The Organization received approximately \$11,205 and \$28,865 in contributions from Board Members in fiscal year 2016 and 2015, respectively.

NOTE G – LEASE COMMITMENTS

The Organization leases office space and Restore resale store under an operating lease expiring in 2024 with future commitments by fiscal year as follows:

<u>Year ending June 30,</u>	
2017	\$ 509,541
2018	519,424
2019	539,181
2020	539,181
2021	539,181
Thereafter	898,637
	<u>\$ 3,545,145</u>

Rent expense amounted to \$505,771 and \$530,529 for 2016 and 2015, respectively.

NOTE H – LITIGATION AND RISK MANAGEMENT

The organization is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the Organization purchased commercial insurance for claims related to such risks.