

**CONVOY OF HOPE, INCORPORATED**

Financial Statements

December 31, 2010 and 2009

(With Independent Auditor's Report Thereon)

# CONVOY OF HOPE, INCORPORATED

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## Independent Auditor's Report

The Board of Directors

**Convoy of Hope, Incorporated:**

We have audited the accompanying statements of financial position of **Convoy of Hope, Incorporated** (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Convoy of Hope, Incorporated** as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Bush, Ramlow & Shore, P.C.*

Springfield, Missouri

April 6, 2011

**CONVOY OF HOPE, INCORPORATED**

## Statements of Financial Position

December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Assets:		
Cash and cash equivalents	\$ 9,319,791	\$ 3,087,346
Assets held by field operations	116,936	-
Amounts due from other organizations	187,185	84,162
Accounts receivable from the United States Agency for International Development (USAID)	118,658	76,221
Accounts and other receivables	138,584	131,656
Inventory, net	6,560,311	5,503,286
Other assets	14,000	14,000
Prepaid expenses	115,898	38,221
Property and equipment, net	8,024,339	8,105,660
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Total assets	\$ 24,595,702	\$ 17,040,552
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 <b><u>Liabilities and Net Assets</u></b>  		
Liabilities:		
Accounts payable and accrued expenses	\$ 602,575	\$ 326,044
Notes payable	3,589,003	3,903,654
	<hr/>	<hr/>
Total liabilities	4,191,578	4,229,698
	<hr/>	<hr/>
Net assets:		
Unrestricted	7,503,357	6,947,119
Temporarily restricted	12,900,767	5,863,735
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Total net assets	20,404,124	12,810,854
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Total liabilities and net assets	\$ 24,595,702	\$ 17,040,552
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See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**

Statements of Activities

Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support, revenue, and adjustments:						
Contributions	\$ 6,079,646	11,576,527	17,656,173	\$ 3,974,972	1,604,060	5,579,032
Contributions - indirect	973,414	-	973,414	-	-	-
Public cash and food commodity grants	-	428,308	428,308	-	519,146	519,146
Gifts-in-kind	15,912,849	25,419,907	41,332,756	24,914,348	14,805,740	39,720,088
Investment income	148,658	-	148,658	104,618	-	104,618
Lease income	577,361	-	577,361	590,546	-	590,546
Third-party shipping income	143,143	-	143,143	186,349	-	186,349
Other income	22,390	-	22,390	8,899	-	8,899
Net assets released due to satisfaction of program restrictions	30,387,710	(30,387,710)	-	18,375,993	(18,375,993)	-
Total support, revenue, and adjustments	<u>54,245,171</u>	<u>7,037,032</u>	<u>61,282,203</u>	<u>48,155,725</u>	<u>(1,447,047)</u>	<u>46,708,678</u>
Operating expenses:						
Program services	47,885,837	-	47,885,837	44,147,634	-	44,147,634
Fundraising	3,171,650	-	3,171,650	1,967,642	-	1,967,642
Administration	2,631,446	-	2,631,446	2,002,492	-	2,002,492
Total operating expenses	<u>53,688,933</u>	<u>-</u>	<u>53,688,933</u>	<u>48,117,768</u>	<u>-</u>	<u>48,117,768</u>
Change in net assets	556,238	7,037,032	7,593,270	37,957	(1,447,047)	(1,409,090)
Net assets, beginning of year	6,947,119	5,863,735	12,810,854	6,909,162	7,310,782	14,219,944
Net assets, end of year	<u>\$ 7,503,357</u>	<u>12,900,767</u>	<u>20,404,124</u>	<u>\$ 6,947,119</u>	<u>5,863,735</u>	<u>12,810,854</u>

See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**  
Statement of Functional Expenses  
Year Ended December 31, 2010

	Program Services					Support Services				
	Children's Feeding Initiatives	Global Outreach	Global Disaster Response	Non-Core Mission Initiatives	Partner Resourcing and Logistics	Total Program Services	Fundraising	Administration	Total Support Services	Total
Salaries / payroll taxes	\$ 102,987	\$ 323,149	\$ 391,214	\$ 50,800	\$ 346,747	\$ 1,214,897	\$ 1,043,585	\$ 1,253,714	\$ 2,297,299	\$ 3,512,196
Employee benefits	26,303	85,971	62,540	-	84,470	259,284	252,928	234,512	487,440	746,724
	129,290	409,120	453,754	50,800	431,217	1,474,181	1,296,513	1,488,226	2,784,739	4,258,920
Advertising and general promotion	-	-	6,375	12,795	-	19,170	20,645	27,092	47,737	66,907
Communications and telephone	6,852	8,262	16,892	23,810	-	55,816	11,321	34,658	45,979	101,795
Conferences, conventions and meetings	11,756	813	19,506	14,004	6,610	52,689	61,102	25,789	86,891	139,580
Contract labor	36,319	1,938	94,162	16,751	5,575	154,745	53,282	25,453	78,735	233,480
Depreciation	184,699	25,103	122,369	-	75,599	407,770	39,918	169,108	209,026	616,796
Dues and memberships	845	4	6,996	-	266	8,111	2,309	3,852	6,161	14,272
Equipment, tools and rentals	9,183	18,953	17,581	-	755	46,472	2,011	12,898	14,909	61,381
Foreign field office operational costs	347,189	-	-	-	-	347,189	-	-	-	347,189
Gifts and entertainment	1,207	5,421	2,010	10,348	-	18,986	8,387	7,181	15,568	34,554
Gifts to other ministries	446,725	70,556	634,457	55,152	-	1,206,890	44,792	4,549	49,341	1,256,231
Gifts-in-kind	7,480,119	1,317,475	15,969,453	19,286	15,636,948	40,423,281	-	-	-	40,423,281
Insurance	11,959	-	4,136	4,947	29,074	50,116	2,042	101,899	103,941	154,057
Interest	-	-	-	-	-	-	-	170,891	170,891	170,891
Licenses and fees	2,776	4,678	5,280	559	39,719	53,012	49,796	43,158	92,954	145,966
Postage and freight	3,443	4,095	5,337	5,664	130	18,669	105,265	1,344	106,609	125,278
Printing and publications	3,761	3,361	16,741	23,652	203	47,718	63,986	5,545	69,531	117,249
Procurement - product & shipping inbound	-	1,196	104,141	-	205,570	310,907	-	-	-	310,907
Professional services	804	-	-	21,334	-	22,138	248,846	79,680	328,526	350,664
Relief and supplies	63,451	334,628	232,145	5,511	-	635,735	-	-	-	635,735
Repairs and maintenance	770	61	14,352	480	56,372	72,035	432	36,010	36,442	108,477
Shipping - outbound	471,749	32,714	944,481	235	10,524	1,459,703	-	-	-	1,459,703
Shipping - outbound (third-party)	-	-	-	-	98,827	98,827	-	-	-	98,827
Supplies	69,944	19,825	33,848	21,030	14,069	158,716	10,767	22,433	33,200	191,916
Taxes	-	-	-	-	-	-	-	104,336	104,336	104,336
Training and staff development	3,939	-	967	2,194	1,518	8,618	209	6,566	6,775	15,393
Travel and special events	95,184	147,964	215,705	159,682	1,874	620,409	1,149,424	56,146	1,205,570	1,825,979
Utilities and occupancy	-	-	20,062	9,000	-	29,062	603	57,288	57,891	86,953
Loss on disposition of equipment	-	-	-	-	-	-	-	147,344	147,344	147,344
Other	-	78,682	6,190	-	-	84,872	-	-	-	84,872
Total functional expenses	\$ 9,381,964	\$ 2,484,849	\$ 18,946,940	\$ 457,234	\$ 16,614,850	\$ 47,885,837	\$ 3,171,650	\$ 2,631,446	\$ 5,803,096	\$ 53,688,933

See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**  
Statement of Functional Expenses  
Year Ended December 31, 2009

	Program Services					Support Services			
	International	US Outreach	US Disaster Response	Logistical Support and Supply Lines	Total Program Services	Fundraising	Administration	Total Support Services	Total
Salaries / payroll taxes	\$ 108,525	\$ 277,987	\$ 320,428	\$ 403,270	\$ 1,110,210	\$ 710,502	\$ 908,082	\$ 1,618,584	\$ 2,728,794
Employee benefits	26,410	77,508	71,631	92,160	267,709	149,744	170,625	320,369	588,078
	134,935	355,495	392,059	495,430	1,377,919	860,246	1,078,707	1,938,953	3,316,872
Advertising and general promotion	5,897	28	-	-	5,925	105,373	1,089	106,462	112,387
Communications and telephone	3,341	404	8,442	-	12,187	3,286	27,991	31,277	43,464
Conferences, conventions and meetings	11,197	2,401	19,953	6,605	40,156	54,418	28,614	83,032	123,188
Contract services	15,561	1,579	24,500	85	41,725	45,134	18,027	63,161	104,886
Depreciation	88,049	37,763	78,473	153,543	357,828	34,990	159,078	194,068	551,896
Dues and memberships	1,936	273	1,600	75	3,884	6,848	8,898	15,746	19,630
Equipment, tools and rentals	22,103	64,629	8,282	702	95,716	600	14,525	15,125	110,841
Gifts and entertainment	5,209	1,094	254	-	6,557	14,958	6,834	21,792	28,349
Gifts to other ministries	288,219	37,000	12,750	15	337,984	6,000	34,050	40,050	378,034
Gifts-in-kind	12,717,702	1,121,120	676,773	24,721,642	39,237,237	-	-	-	39,237,237
Insurance	17,202	-	-	27,175	44,377	134	77,988	78,122	122,499
Interest	-	-	-	-	-	-	180,267	180,267	180,267
Licenses and fees	2,384	2,357	2,705	27,159	34,605	16,000	6,830	22,830	57,435
Postage and freight	5,872	847	135	181	7,035	54,552	2,175	56,727	63,762
Printing and publications	5,302	9,959	1,588	185	17,034	39,968	13,834	53,802	70,836
Procurement - product & shipping inbound	24,959	10,692	8,948	193,095	237,694	11,071	-	11,071	248,765
Professional services	4,291	-	5,766	-	10,057	186,599	45,720	232,319	242,376
Relief and supplies	538,677	255,077	2,779	-	796,533	1,387	671	2,058	798,591
Repairs and maintenance	8,519	-	7,606	82,044	98,169	-	69,941	69,941	168,110
Shipping - outbound	533,349	22,865	5,599	26,400	588,213	-	-	-	588,213
Shipping - outbound (third-party)	-	-	-	152,701	152,701	-	-	-	152,701
Supplies	29,598	29,276	2,128	5,237	66,239	5,312	18,859	24,171	90,410
Taxes	-	-	-	-	-	-	87,391	87,391	87,391
Training and staff development	85	30	1,132	26	1,273	509	4,818	5,327	6,600
Travel and special events	315,563	157,590	9,437	1,706	484,296	519,377	70,598	589,975	1,074,271
Utilities and occupancy	8,825	17	-	-	8,842	-	45,588	45,588	54,430
Other	6,148	75,780	1,459	61	83,448	880	(1)	879	84,327
<b>Total functional expenses</b>	<b>\$ 14,794,923</b>	<b>\$ 2,186,276</b>	<b>\$ 1,272,368</b>	<b>\$ 25,894,067</b>	<b>\$ 44,147,634</b>	<b>\$ 1,967,642</b>	<b>\$ 2,002,492</b>	<b>\$ 3,970,134</b>	<b>\$ 48,117,768</b>

See accompanying notes to financial statements

**CONVOY OF HOPE, INC.**  
**Statements of Cash Flows**  
**Periods Ended December 31, 2010 and December 31, 2009**

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 7,593,270	\$ (1,409,090)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	616,796	551,896
Loss on disposition of equipment	147,344	-
Non-cash equipment contributions	(65,500)	(123,500)
Non-cash increase in GIK inventory	(1,103,625)	(656,970)
Changes in operating assets and liabilities		
Assets held by field operations	(116,936)	-
Amounts due from other organizations	(103,023)	30,549
Accounts and other receivables	(6,928)	(22,699)
Federal awards receivable	(42,437)	(26,221)
Prepaid expenses	(77,677)	7,692
Inventories - non GIK	46,600	141,640
Accounts payable and accrued expenses	276,531	(5,339)
Net cash provided / (used) in operating activities	7,164,415	(1,512,042)
<b>Cash flows from investing activities:</b>		
Acquisition of equipment	(681,459)	(163,518)
Proceeds from sale of equipment	64,140	-
Proceeds from sale of long-term investments	-	2,000,006
Net cash (used) / provided by investing activities	(617,319)	1,836,488
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(314,651)	(205,275)
Net cash used in financing activities	(314,651)	(205,275)
Net increase in cash and cash equivalents	6,232,445	119,171
Cash and cash equivalents at beginning of year	3,087,346	2,968,175
Cash and cash equivalents at end of year	\$ 9,319,791	\$ 3,087,346
<b>Supplemental data:</b>		
Cash paid during the year for interest	\$ 170,891	\$ 180,267
Funds collected on behalf of others	\$ 26,698	\$ 4,250
Funds paid on behalf of others	\$ 5,500	\$ 2,750
Non-cash transactions:		
Contribution of gift-in-kind food, supplies, and other	\$ 40,491,201	\$ 39,131,053
Distribution of gift-in-kind food and supplies	\$ 39,387,576	\$ 38,444,079
Contribution of services and use of labor	\$ 945,705	\$ 678,460
Contribution and use of facilities	\$ 90,000	\$ 90,000

See accompanying notes to financial statements

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 1. Description of Organization

Convoy of Hope, Inc. (the organization) is a faith-based entity, headquartered in Springfield, Missouri, with a driving passion to feed the world. The organization impacts lives through four primary service areas:

- *Children's feeding initiatives.* The organization not only provides meals, but also creates sustainable solutions to help eradicate poverty and hunger through nutrition, clean and safe water, agricultural initiatives, healthy living environments, and education.
- *Global community outreach.* The organization provides guests of honor with unconditional love and acceptance through the mobilization, training, and resourcing of volunteers from local churches, businesses, and communities. Outreaches feature resources such as: free medical and dental screenings, haircuts, food, job placement assistance, connection to local churches and community organizations, entertainment, and groceries.
- *Global disaster response.* Through its initial response teams, fleet of tractor-trailers, 300,000 square foot world distribution center and on-the-ground partners, the organization quickly and effectively provides resources including water, ice, food, shelter, and emergency supplies to survivors of disasters.
- *Partner resourcing.* Through collaboration with other like-minded organizations throughout the world, the organization is able to expand its reach by supplying and empowering other organizations with food and other products.

Administrative activities include the functions necessary to provide support to the organization's program activities. Administrative activities include those activities that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, public relations, information technology, human resource management, and similar activities.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with the solicitation of money, securities, services, materials, facilities, other assets, or time from individuals, businesses, foundations, government agencies, and others.

The organization is supported primarily through individuals, churches and businesses who give cash and in-kind donations.

## 2. Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America for Not-For-Profits. The significant accounting reporting policies used by the organization are described below to enhance the usefulness and understanding of the financial statements.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 2. Significant Accounting Policies (continued)

### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization's management evaluates the estimates and assumptions based on historical experience and various other factors. Management believes the estimates and assumptions are reasonable in the circumstances; the actual results could differ from those estimates.

### Net Assets (Note 9)

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Unrestricted net assets* – Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Temporarily restricted net assets* – Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The organization's unspent contributions are classified in this class. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment are reported as temporarily restricted until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets* – Permanently restricted net assets are resources whose use by the organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class, as is the organization's beneficial interest in a perpetual charitable trust held by a bank trustee. The organization currently does not have any permanently restricted net assets.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 2. Significant Accounting Policies (continued)

assets. If an endowment fund has no net gains from prior years, net losses are classified as decreases in unrestricted net assets.

The organization's Board may apply up to a ten percent overhead rate assessment to restricted contributions at the time of donation to cover fundraising and administrative costs. At the time of assessment, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statement of activities as a component of net assets released due to satisfaction of program restrictions. The Board's actual overhead rate applied to restricted contributions in connection with this policy was 9.6% and 7.8%, for the years ended December 31, 2010 and 2009, respectively.

In the event the organization receives more restricted contributions for a given project than can be wisely used, the organization's Board reserves the right to reallocate these funds to fulfill similar projects within the organization's mission.

### **Cash and Cash Equivalents**

Cash and cash equivalents are primarily cash on hand and demand deposits with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

### **Assets Held By Field Operations**

Assets held by field operations are primarily remaining cash positions of funds forwarded to project field sites for use in carrying out program activities.

### **Amounts Due from Other Organizations**

Amounts due from other organizations are primarily amounts collected by the General Council of the Assemblies of God (GCAG) and its affiliates on behalf of the organization. Management believes all amounts are collectible in full, therefore no allowance for uncollectible amounts has been provided.

### **Accounts and Other Receivables**

Accounts receivable are primarily unsecured amounts due from tenants, Hope Network partners, and ocean freight partners. Management believes all amounts are collectible in full, therefore no allowance for uncollectible amounts has been provided. If amounts become uncollectible, those amounts will be charged to operations when that determination is made.

### **Contributions Receivable**

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at the present value of estimated future cash flows. The discounts are computed using a risk-free rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met. The organization currently does not have any unconditional promises to give recorded.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 2. Significant Accounting Policies (continued)

### Investments

The organization invests cash in excess of its immediate needs in United States government securities and other term notes. Invested funds include those net assets which are internally or donor designated for various purposes. Investments are recorded at fair value and unrealized changes in fair value from year to year are reported in the statements of activities as part of overall investment income. The investment policy allows management to invest idle assets in a prudent manner that will minimize investment losses while achieving a reasonable rate of return. The organization currently does not have any short-term or long-term investments recorded.

### Inventory (Note 4)

The financial statements report inventories of food commodities and supplies to be used in future outreaches or distributed through future programs or partners. These inventories are tracked in two main categories, as follows:

- *Gifts-in-kind (GIK) inventory* - GIK inventory primarily consist of donated food, commodities, and supplies. GIK inventory is valued and recorded at estimated fair value as provided by the donor or, in the absence of donors' valuations, based on management's estimate of wholesale values considering their condition and utility for use, at the time the goods are received. GIK inventory is reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.
- *Non-GIK inventory* - Non-GIK inventory primarily consist of purchased food product for use in outreach initiatives. While it is the organization's intent to distribute purchased product as promptly as possible, undistributed non-GIK product is recorded as inventory and valued at cost. Management believes this approximates the lower of cost or market.

### Property and Equipment (Note 5)

Land, building, and equipment are reported in the statement of financial position at cost, if purchased, and at estimated fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than 3 years. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of assets, ranging from 3 years for computers to 40 years for buildings. Upon sale or retirement of the property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statements of activities.

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 2. Significant Accounting Policies (continued)

### Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises to give with payments due in future years have an implied restriction to be used in the year the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the organization has an irrevocable right to the bequest.

### Gifts-In-Kind Contributions (Note 11)

The organization receives contributions in forms other than cash or investments. If the organization receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of the gift, provided that the value of the asset and its estimated useful life meets the organization's capitalization policy. Donated use of facilities is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift, and the expense is reported over the term of use.

Donated food and supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed in service or distributed. The organization also follows the Interagency GIK Standards, as developed by the interagency task force Accord, formerly known as the Association of Evangelical Relief and Development Organizations (AERDO). Under these standards, GIK is valued and recorded as a non-cash contribution at estimated fair value as provided by the donor or, in the absence of donors' valuations, based on the organization's estimate of wholesale values considering the condition and utility for use, at the time the goods are received from the donor. The recognition of GIK contributions is limited to donations where the organization takes possession or constructive title of the GIK and either the organization is the original recipient of the gift, the end user of the gift, or is involved in partnership with the end-user agency for distribution domestically or internationally. GIK is recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donor intent.

The organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the organization's programs and support service operations. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance non-financial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated services

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

### 2. Significant Accounting Policies (continued)

with an estimated fair value of \$945,705 and \$678,460 met those criteria and are included in in-kind contributions in the statement of activities for the years ended December 31, 2010 and 2009, respectively. Those services were primarily for skilled workers serving in outreaches and skilled laborers and drivers serving in disaster response and partner resourcing initiatives.

#### **Federal Grant Contribution Revenue (Note 10)**

Federal cash and food commodity grants are received through the United States Agency of International Development's (USAID) Office of Food for Peace and Office of Development Partners, Private and Voluntary Cooperation Division to further the exempt purposes of the organization. The organization recognizes these awards as contribution revenue as these transactions are part of the organization's ongoing major or central activities and separately discloses these amounts on the statement of activities as Public Cash and Food Commodity Grants.

Cash contribution revenue is recognized when the qualifying costs are incurred for cost-reimbursing grants or contracts. Deferred revenue is recorded when federal funds are received in advance of qualifying costs being incurred. Food commodities are valued using guidelines published by the United States Department of Agriculture and USAID. Food contribution revenue granted for distribution is generally recognized when the commodities are delivered to the ultimate destination. Grant revenue from federal agencies may be subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. These reviews could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the organization's management believes costs ultimately disallowed, if any, would not materially affect the financial position of the organization.

#### **Expense Recognition and Allocation**

The cost of providing the organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions, such as depreciation and payroll, have been allocated among the various functions benefited based on management's estimates.

Administrative and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, the policy to account for joint costs that include fundraising is to allocate all costs which have a fundraising component as 100% fundraising.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 2. Significant Accounting Policies (continued)

### **Mission Statement Revision and Programmatic Functional Expense Classifications**

The organization revised its mission statement during 2010 to more closely align with its global reach and focus. In conjunction with the mission revision, the organization restructured its main programmatic areas, key personnel, and cost accounting systems. These changes resulted in certain 2009 programmatic functional expense reporting classifications to be non-comparable to current 2010 programmatic functional expense reporting classifications. Since total programmatic expenses and overall comparability were not impacted, management elected to present program expenses in summary on the comparative statement of activities and report the 2009 statement of functional expenses as originally reported.

### **Tax Status**

Originally registered as New Era Ministries, Inc. in 1984, the organization changed its legal name to ChurchCare America, Inc., and then, in 2002, to Convoy of Hope, Inc. The organization incorporated under the laws of the State of California and is exempt from federal income taxes on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the code.

The organization is subject to tax on unrelated business income and, accordingly, pays estimated taxes. The financial statements include an additional provision for unrelated business income taxes amounting to \$35,680 for the year ended December 31, 2009. In accordance with the provisions associated with accounting for uncertainty in income taxes, management has evaluated the organization's tax positions for the years ended December 31, 2010 and 2009, and believes it has taken no uncertain tax position that would require an adjustment to the financial statements. With few exceptions, the organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

As a publicly supported entity, the organization is classified as a public charity and not a private foundation under Section 509(a)(2) of the Code. Contributions to the organization are tax deductible to donors under section 170 of the Code.

## 3. Fair Value Measurements

The organization reports its fair value measurements using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Level 1 inputs are the most reliable evidence of fair value, however, level 1 inputs are not available for many of the assets and liabilities that the organization is required to measure at fair value (for example, amounts due from other organizations and in-kind contributions). The primary uses of fair value measures in the organization's financial statements are for the initial measurement of noncash gifts and recurring measurement of short-term, loan fund investments.

**CONVOY OF HOPE, INCORPORATED**

Notes to Financial Statements

December 31, 2010 and 2009

**4. Inventory**

Inventory consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
GIK food inventory	\$ 3,399,281	\$ 2,081,400
GIK supply inventory	3,017,751	3,232,007
Purchased food inventory	<u>143,279</u>	<u>189,879</u>
	<u>\$ 6,560,311</u>	<u>\$ 5,503,286</u>

**5. Property and Equipment**

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land, building and improvements	\$ 7,776,820	\$ 7,773,419
Construction in progress	13,983	13,983
Furniture and equipment	840,274	905,668
Transportation equipment	<u>3,649,302</u>	<u>3,110,808</u>
	12,280,379	11,803,878
Less accumulated depreciation	<u>(4,256,040)</u>	<u>(3,698,218)</u>
	<u>\$ 8,024,339</u>	<u>\$ 8,105,660</u>

Depreciation expense was \$616,796 and \$551,896 for 2010 and 2009, respectively.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 6. Notes Payable

Notes payable consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
6.5% note, interest and principal due monthly, due November 1, 2011; secured by deed of trust.	\$ 2,070,910	\$ 2,223,409
LIBOR + 1.65% note, with 8.5% cap, interest and principal due monthly, due November 1, 2011; secured by deed of trust; rate was 1.91% and 1.88% at December 31, 2010 and 2009, respectively.	<u>1,518,093</u>	<u>1,680,245</u>
	<u>\$ 3,589,003</u>	<u>\$ 3,903,654</u>

### **Debt maturity**

Year ending December 31:

2011

\$ 3,589,003

The organization had a \$500,000 line of credit from a commercial bank secured by a deed of trust which matured on March 1, 2009. The organization elected not to renew the line of credit during 2010 and there was no loan outstanding at any time during 2010 or 2009.

## 7. **Retirement Plan**

The organization started a defined contribution retirement plan covering its full-time, regular employees. This plan is available for the benefit of all full-time, regular employees who have completed 90 days of service with the organization. Employer contributions are equal to 100% match up to \$1,200 each fiscal year. These contributions, included in employee benefits in the statement of functional expenses, were \$43,500 for the year ended December 31, 2010.

## 8. **Compensated Absences**

Employees of the organization are entitled to paid vacations and can carryover unused vacation from one fiscal year to the next. The financial statements include a provision for compensated absences earned, but not paid amounting to \$85,016 and \$63,950 as of December 31, 2010 and 2009, respectively.

# CONVOY OF HOPE, INCORPORATED

## Notes to Financial Statements

December 31, 2010 and 2009

### 9. Net Assets

Unrestricted net assets are represented by the following at December 31:

	<u>2010</u>	<u>2009</u>
Working capital	\$ 1,639,500	\$ 1,050,915
Property and equipment, net of debt	4,435,336	4,202,006
Undistributed GIK contributions and purchased inventories	<u>1,428,521</u>	<u>1,694,198</u>
	<u>\$ 7,503,357</u>	<u>\$ 6,947,119</u>

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2010</u>	<u>2009</u>
Global disaster response	\$ 7,396,144	\$ 1,824,017
Children's feeding initiatives	9,000	24,210
Represented by capital equipment and other designated funds	363,833	161,420
Represented by debt retirement designated funds	-	45,000
Represented by undistributed GIK contributions	<u>5,131,790</u>	<u>3,809,088</u>
	<u>\$ 12,900,767</u>	<u>\$ 5,863,735</u>

### 10. Public Cash and Food Commodity Grants

Cash and food commodity grant contribution revenue received from USAID are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Cash awards from USAID	\$ 168,658	\$ 216,221
Food distribution awards from USAID	<u>259,650</u>	<u>302,925</u>
Total cash and food commodity grants	<u>\$ 428,308</u>	<u>\$ 519,146</u>

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 11. Donated Materials and Services

GIK recognized consisted of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
GIK food	\$ 27,385,467	\$ 30,150,782
Supplies	12,846,084	8,677,346
Services and other	<u>1,101,205</u>	<u>891,960</u>
	<u>\$ 41,332,756</u>	<u>\$ 39,720,088</u>

## 12. Lease Income Under Operating Leases

The organization leases excess warehouse space to tenants under lease agreements ranging from month-to-month to five years. Lease income was \$577,361 and \$590,546 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments under non-cancelable leases:

Year Ending December 31:	2011	\$ 445,389
	2012	197,659
	2013	20,709
	2014	20,709
	2015	<u>12,080</u>
		<u>\$ 696,546</u>

## 13. Concentrations of Risk

The organization maintains cash and investments in two financial institutions in excess of the Federal Deposit Insurance Corporation insured limits as of December 31, 2010 and 2009. Management believes no significant risk exists as a result of these uninsured balances due to the size and financial wherewithal of the financial institutions.

Gifts-in-kind food donations include gifts from four entities comprising 78% of the total donated food category.

## 14. Affiliations and Related Parties

The organization and the GCAG maintain separate and distinct Boards of Directors. The following summarizes significant affiliations between the two organizations:

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

## 14. Affiliations and Related Parties (continued)

Three Board members of the organization were full-time management level employees of the GCAG or its affiliates.

The GCAG and its affiliate, the Assemblies of God World Missions (AGWM), receive pass-thru donations on behalf of the organization. The balance in these accounts for the years ended December 31, 2010 and 2009 was \$184,685 and \$81,662, respectively. These funds are generally disbursed monthly.

In addition, the organization maintains memorandums of understanding (MOU) with both the GCAG and AGWM to formalize the organization's role as the preferred partner with the GCAG and its mission's agencies to provide compassion ministry resources and services. The memorandums outline strategic partnership roles encompassing joint fundraising, co-branding, media and communication releases, financial ramifications, and on the ground response protocols in the event of major disasters due to these entities shared constituencies. Funds received directly by the organization as a result of joint appeals are recorded as previously described in the organization's significant accounting policies, while funds received directly by the GCAG and its affiliate are recorded once disbursed to the organization in relation to approved program activities.

Cash contribution revenue recognized under the GCAG and AGWM MOU's consisted of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Cash contributions from AGWM MOU	\$ 973,414	\$ -
Cash contributions from GCAG MOU	<u>150,000</u>	<u>-</u>
Total cash contributions	<u>\$ 1,123,414</u>	<u>\$ -</u>
	<u>2010</u>	<u>2009</u>
Payments made to AGWM per MOU	<u>\$ 230,290</u>	<u>\$ -</u>
Total cash payments	<u>\$ 230,290</u>	<u>\$ -</u>

The GCAG and its affiliate assigned seventeen and fifteen full-time missionaries to the organization to assist in program activities during 2010 and 2009, respectively. The value of these services has not been reflected in the accompanying financial statements.

The organization maintains investment accounts with AG Financial Solutions, an affiliate of the GCAG. The balance in these accounts for the years ended December 31, 2010 and 2009 was \$6,500,000 and \$2,000,000, respectively.

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2010 and 2009

### 14. Affiliations and Related Parties (continued)

The organization leases excess warehouse space to two organizations affiliated with the GCAG. Lease income for the years ended December 31, 2010 and 2009 was \$149,461 and \$160,944, respectively.

The organization purchased services provided by a board member totaling \$20,000 for the year ended December 31, 2010.

### 15. Subsequent Events

Subsequent to December 31, 2010, the organization refinanced its outstanding notes payable with 4.5% fixed rate note maturing on April 1, 2016. In addition, a \$1,000,000 line of credit with a floating interest rate based on the issuer's Prime rate was also issued. Both debt arrangements are secured by a deed of trust.

Subsequent events have been evaluated through April 6, 2011, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.