

CONVOY OF HOPE, INC.

Financial Statements
and
Report of Independent Certified Public Accountants

Years Ended December 31, 2007 and 2006

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Convoy of Hope, Inc.
Springfield, Missouri

We have audited the accompanying statements of financial position of **Convoy of Hope, Inc.** (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, 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, Inc.** as of December 31, 2007 and 2006 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 30, 2008

CONVOY OF HOPE, INC.
Statements of Financial Position
December 31, 2007 and December 31, 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Assets:		
Cash and cash equivalents	\$ 2,461,060	\$ 2,299,887
Assets held by field operations	119,310	96,436
Amounts due from other organizations	117,157	172,793
Accounts and other receivables	99,795	69,035
Accounts receivable from federal grants	99,940	-
Prepaid expenses	38,452	25,406
Investments	3,556,211	3,529,435
Inventories	6,482,838	3,155,556
Property and equipment, net	8,358,961	8,465,549
Other assets	10,000	10,000
Total assets	<u>\$ 21,343,724</u>	<u>\$ 17,824,097</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 218,896	\$ 136,194
Accrued expenses	235,349	95,520
Notes payable	4,251,090	4,341,928
Total liabilities	<u>4,705,335</u>	<u>4,573,642</u>
Net Assets:		
Unrestricted	11,469,472	8,421,083
Temporarily restricted	5,168,917	4,829,372
Total net assets	<u>16,638,389</u>	<u>13,250,455</u>
Total liabilities and net assets	<u>\$ 21,343,724</u>	<u>\$ 17,824,097</u>

See accompanying notes to financial statements

CONVOY OF HOPE, INC.
Statement of Activities
For the Years Ended December 31, 2007 and 2006 (summarized)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2007</u>	<u>2006</u>
Support, revenue, and adjustments:				
Contributions	\$ 3,417,414	\$ 4,476,207	\$ 7,893,621	\$ 5,451,574
Gifts in-kind	26,363,652	-	26,363,652	19,210,705
Investment income	266,979	-	266,979	206,393
Lease income	563,584	-	563,584	552,772
Third party shipping income	135,608	-	135,608	-
Merchandise income	29,514	-	29,514	19,270
Other income	28,592	-	28,592	13,379
Net assets released from restrictions	4,136,662	(4,136,662)		
Total support, revenue, and adjustments	<u>34,942,005</u>	<u>339,545</u>	<u>35,281,550</u>	<u>25,454,093</u>
Expenses:				
Program	28,132,732	-	28,132,732	24,492,885
Fundraising	2,263,815	-	2,263,815	1,958,580
General and administrative	1,497,069	-	1,497,069	1,404,940
Total expenses	<u>31,893,616</u>	<u>-</u>	<u>31,893,616</u>	<u>27,856,405</u>
Change in net assets	3,048,389	339,545	3,387,934	(2,402,312)
Net assets at beginning of year	<u>8,421,083</u>	<u>4,829,372</u>	<u>13,250,455</u>	<u>15,652,767</u>
Net assets at end of year	<u>\$ 11,469,472</u>	<u>\$ 5,168,917</u>	<u>\$ 16,638,389</u>	<u>\$ 13,250,455</u>

See accompanying notes to financial statements

CONVOY OF HOPE, INC.
Statement of Functional Expenses
Year Ended December 31, 2007

	<u>Program</u>	<u>Fund-raising</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries / payroll taxes	\$ 1,043,330	\$ 734,137	\$ 560,246	\$ 2,337,713
Employee benefits	188,775	109,667	111,701	410,143
	<u>1,232,105</u>	<u>843,804</u>	<u>671,947</u>	<u>2,747,856</u>
Advertising and general promotion	18,390	70,576	1,121	90,087
Communications and telephone	50,815	19,790	24,274	94,879
Conferences, conventions and meetings	43,407	37,588	16,712	97,707
Contract services	161,998	129,721	29,329	321,048
Depreciation	287,300	19,554	147,248	454,102
Equipment, tools and rentals	34,395	636	5,402	40,433
Gifts and entertainment	4,978	11,058	6,583	22,619
Gifts to other ministries	294,672	-	-	294,672
Gifts in-kind	22,941,621	-	-	22,941,621
Insurance	35,579	926	80,466	116,971
Interest	-	-	294,704	294,704
Licenses and fees	40,081	21,632	15,870	77,583
Postage and freight	13,652	32,285	7,717	53,654
Printing and publications	27,414	39,880	2,094	69,388
Procurement - product & shipping inbound	555,105	-	-	555,105
Professional services	25,140	507,091	35,646	567,877
Relief and supplies	1,119,268	-	-	1,119,268
Repairs and maintenance	69,761	727	33,776	104,264
Shipping - outbound	450,829	-	-	450,829
Shipping - outbound (third party)	138,691	-	-	138,691
Supplies	54,331	7,475	11,977	73,783
Taxes	-	-	67,668	67,668
Training & staff development	5,989	469	1,329	7,787
Travel and special events	510,750	485,008	10,400	1,006,158
Utilities and occupancy	9,656	-	29,522	39,178
Other	6,805	35,595	3,284	45,684
	<u>28,132,732</u>	<u>2,263,815</u>	<u>1,497,069</u>	<u>31,893,616</u>
Total functional expenses	<u>28,132,732</u>	<u>2,263,815</u>	<u>1,497,069</u>	<u>31,893,616</u>

See accompanying notes to financial statements

CONVOY OF HOPE, INC.
Statement of Functional Expenses
Year Ended December 31, 2006

	<u>Program</u>	<u>Fund-raising</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries / payroll taxes	\$ 973,623	\$ 734,721	\$ 370,983	\$ 2,079,327
Employee benefits	143,951	129,846	48,290	322,087
	<u>1,117,574</u>	<u>864,567</u>	<u>419,273</u>	<u>2,401,414</u>
Bad debt expense	-	-	9,850	9,850
Communications	78,310	23,191	9,599	111,100
Conferences, conventions and meetings	17,275	8,859	10,294	36,428
Contract labor	161,160	5,432	3,228	169,820
Depreciation	80,771	37,279	301,351	419,401
Distribution of food and supplies	19,675,512	-	-	19,675,512
Equipment, tools and rentals	80,355	9,313	5,439	95,107
Fuel	177,787	-	-	177,787
General administrative fees	-	10,837	3,586	14,423
General promotional and merchandise	28,183	80,479	-	108,662
Gifts and entertainment	4,126	51,714	5,014	60,854
Insurance	36,757	-	59,365	96,122
Interest	-	-	317,946	317,946
Itineration	5,005	-	-	5,005
Licenses and fees	38,618	17,756	9,125	65,499
Loss on disposal of fixed assets	5,565	-	-	5,565
Media	-	1,724	-	1,724
Merchandise - cost of sales	-	20,026	-	20,026
Organizational support	337,120	18,000	200	355,320
Postage and delivery	12,399	13,036	9,342	34,777
Printing and publications	17,052	64,118	6,969	88,139
Procurement - product & shipping inbound	223,237	-	40	223,277
Professional services	7,286	416,543	97,076	520,905
Public relations	-	78,912	-	78,912
Relief and supplies	1,389,448	-	-	1,389,448
Repairs and maintenance	97,103	1,125	12,297	110,525
Shipping - outbound	323,625	-	-	323,625
Supplies	87,237	14,849	13,366	115,452
Taxes - real estate	-	-	24,512	24,512
Taxes - unrelated business income	-	-	25,662	25,662
Travel	491,380	220,820	16,480	728,680
Utilities	-	-	44,926	44,926
	<u>-</u>	<u>-</u>	<u>44,926</u>	<u>44,926</u>
Total functional expenses	<u>\$ 24,492,885</u>	<u>\$ 1,958,580</u>	<u>\$ 1,404,940</u>	<u>\$ 27,856,405</u>

See accompanying notes to financial statements

CONVOY OF HOPE, INC.
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 3,387,934	\$ (2,402,312)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	454,102	419,401
Loss on disposal of fixed assets	2,438	5,565
Gain on sale of equipment	(2,100)	(1,300)
Non-cash equipment contributions	(45,640)	(30,467)
Non-cash increase in GIK inventory	(3,376,391)	464,797
Changes in operating assets and liabilities		
Assets held by field operations	(22,874)	(25,649)
Amounts due from other organizations	55,636	28,847
Accounts and other receivables	(30,760)	110,218
Accounts receivable from federal grants	(99,940)	-
Prepaid expenses	(13,046)	13,481
Inventories - non GIK	49,109	(22,717)
Accounts payable	82,702	(122,432)
Accrued expenses and deposits	139,829	7,815
Net cash provided by (used in) operating activities	580,999	(1,554,753)
Cash flows from investing activities:		
Acquisition of equipment	(316,212)	(557,791)
Proceeds from sale of equipment	14,000	-
Purchase of investments, net	(26,776)	(1,033,144)
Net cash used in investing activities	(328,988)	(1,590,935)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	-	4,349,712
Principal payments on notes payable	(90,838)	(4,319,395)
Net cash provided by (used in) financing activities	(90,838)	30,317
Net increase (decrease) in cash and cash equivalents	161,173	(3,115,371)
Cash and cash equivalents at beginning of year	2,299,887	5,415,258
Cash and cash equivalents at end of year	\$ 2,461,060	\$ 2,299,887
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 294,704	\$ 290,189
Non-cash transactions:		
Contribution of GIK food and supplies	\$ 25,566,822	\$ 18,140,622
Distribution of GIK food and supplies	\$ 22,190,431	\$ 18,605,419
Contribution of services and use of labor	\$ 698,690	\$ 1,070,082

See accompanying notes to financial statements.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

1. Nature of Organization

Convoy of Hope, Inc. is a Christian compassion organization, headquartered in Springfield, Missouri, dedicated to meeting physical and spiritual needs. Convoy of Hope mobilizes, resources, and trains churches and other groups to conduct community outreaches, respond to disasters, and direct other compassion initiatives in the United States and around the world. The Organization accomplishes its mission around the world through three core programs: compassion outreaches, disaster response initiatives, and supply lines.

Originally registered as ChurchCare America, Inc. in 1984, the Organization changed its legal name to Convoy of Hope, Inc. in 2002. The Organization is currently organized as a nonprofit corporation under the laws of the State of California and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Donors of cash and/or property are entitled to the maximum charitable contribution deduction allowed by law. Convoy of Hope is supported primarily through cash and in-kind donations from individuals, churches and businesses who believe in the organization's mission.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

Use of Estimates

In preparing the Organization's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, grants and accounts receivables, amounts due from other organizations, and investments approximate fair value as of December 31, 2007 and 2006, due to the relatively short maturity of these instruments.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on hand and demand deposits with original maturities of three months or less at the date of acquisition.

Concentration of Credit Risk

The Organization maintains demand deposits in a commercial bank that were in excess of Federal Deposit Insurance Corporation insurance limits as of December 31, 2006 and 2007. Convoy has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents. Additionally, the Organization maintains unsecured time and demand notes and may be exposed to credit loss in the event of default by the underlying issuer. However, the Organization does not anticipate default or nonperformance by the issuing organization.

Assets Held By Field Operations

Assets held by field operations consist primarily of cash forwarded to project field sites for use in carrying out ministry activities.

Investments

The Organization's financial assets are invested in United States government securities, loan fund demand notes and term notes, and cash in investment brokerage accounts. Investments are recorded at fair value and unrealized changes in fair value from year to year are reported in the Statement of Activities as part of overall investment income (Note 3).

Amounts Due from Other Organizations

Amounts due from other organizations consist of amounts collected by the General Council of the Assemblies of God and its affiliates on behalf of Convoy of Hope. All amounts are considered fully collectable and, accordingly, no allowance for uncollectible amounts has been provided.

Accounts and Other Receivables

Accounts receivable consist primarily of amounts due from tenants, Hope Network partners, and ocean freight partners. Trade receivables are carried at original invoice amount. Based on historical experience, amounts are considered fully collectable and, accordingly, no allowance for doubtful accounts has been made. If amounts become uncollectible, they will be charged to operations when that determination is made.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

Pledges receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years 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. Convoy of Hope currently does not have any unconditional promises to give recorded.

Inventories

Inventories consist of purchased and gift in-kind commodities recorded at fair value as of the date of donation and are accounted for under a specific identification inventory method. Inventories consist of items held for outreaches, relief efforts, and supply lines and include items such as non-perishable food stock, medical supplies, clothing, blankets, hygiene products, and literature. Merchandise inventory held for sale at outreaches is expensed in the period incurred.

Property and Equipment

Expenditures greater than \$1,000 and a useful life greater than 3 years for land, building, and equipment are capitalized at cost. Donated items are recorded at fair value on the date of the gift. Depreciation is computed using the straight line method over the estimated useful lives of the assets, ranging from 3 years for computers to 40 years for buildings (Note 4).

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent the historical dollar amounts of gifts, including pledges and trusts, subject to donor-imposed stipulations to be invested in perpetuity, and only the income may be available for program operations. Convoy of Hope currently does not have any permanently restricted net assets.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Temporarily Restricted Net Assets – Temporarily restricted net assets are comprised of gifts, including pledges and trusts, that can be expended, but for which restrictions have not yet been met. Such restrictions include those whose use is limited by either a donor-imposed time restriction or a donor-imposed purpose restriction. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released due to satisfaction of program restrictions (Note 6).

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of the Organization. The only limits on unrestricted net assets are broad limits resulting from the nature of the Organization and purposes specified in its articles of incorporation or bylaws.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. Convoy of Hope's policy is to record temporarily restricted contributions received and expended in the same accounting period as temporarily restricted contributions and net assets released due to satisfaction of program restrictions.

Convoy of Hope's Board may apply up to a ten percent overhead rate assessment to restricted contributions 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 statements of activities as net assets released from restriction. The Board's actual overhead rate applied to restricted contributions in connection with this policy was 8.7% and 22%, for the years ended December 31, 2007 and 2006, respectively. However, since 12.3% of the 2006 assessment was a retroactive fiscal year 2005 reassessment, Convoy's effective yearly overhead rate applied to restricted contributions in connection with this policy was 8.7% and 9.7%, for the years ended December 31, 2007 and 2006, respectively.

In the event Convoy of Hope receives more restricted contributions for a given project than can be wisely used, Convoy of Hope's Board reserves the right to reallocate these funds to similar projects to meet similar pressing needs.

Contributions

Contributions are recorded as support when an unconditional promise to give has been made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Grant Revenue

Cash grant revenue is recognized in the period the Organization incurs reimbursable program expenditures. Food revenue granted for food distribution is generally recognized when the commodities are delivered to the ultimate destination.

Other Revenue and Expenses

In accordance with the accrual basis of accounting, revenues are recorded in the period earned and expenses are recorded in the period incurred.

Gifts-In-Kind

In accordance with the provisions of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, donated food and non-cash contributions are recorded at fair value as of the date received. In addition, in accordance with interagency Standards established by the Association of Evangelical Relief and Development Organizations (AERDO), Convoy of Hope records the value of gifts-in-kind for which they were either the original recipient of the gift, the end user of the gift, or were involved in partnership with another organization for distribution domestically or internationally.

Contributed Services

In accordance with the provisions of Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, donated services that create or enhance non-financial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at fair value in the period performed.

Functional Classification and Allocation of Expenses

The costs of providing various program services and supporting activities have been reported on a functional basis in accordance with the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. This Standard requires reporting of expenses by their functional classification in major classes such as program ministry, development and fund-raising, and general and administrative.

Program ministry expenses consist of activities that result in food, clothing, and other compassion/relief supplies and services being distributed to beneficiaries that fulfill the purposes or mission for which Convoy of Hope exists.

Development and fund-raising expenses involve activities undertaken to solicit contributions of money, securities, services, materials, facilities, other assets, or time. Convoy of Hope seeks contributions from individuals, businesses, foundations, government agencies, and others.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

General and administrative expenses are those that are not identifiable with a single program or fund-raising activity but that are indispensable to the conduct of those activities and to Convoy of Hope's existence. They include oversight, business management, general recordkeeping, budgeting, financing, communications, public relations, and related administrative activities.

Certain costs such as depreciation and payroll have been allocated among the program and supporting activities benefited based on management's estimates.

Allocation of Joint Costs

Convoy of Hope implemented the *American Institute of Certified Public Accountants' Statement of Position 98-2, Accounting for Costs of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fundraising*. Convoy of Hope's policy is to allocate all costs which have a fundraising component as 100% fundraising.

Reclassifications

Certain information from the prior year financial statements has been reclassified to conform to the current year presentation. Specifically, a reclassification in the amount of \$96,436 was made to December 31, 2006, Assets Held By Field Operations to conform to current year changes in accounting policy. The total amount was previously reported as cash and cash equivalents.

3. Investments

The fair value of assets reported as investments were as follows at December 31:

	<u>2007</u>	<u>2006</u>
Government Securities	\$ 2,556,211	\$ 2,529,435
Assemblies of God Loan Fund Note	\$ 1,000,000	\$ 1,000,000

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

4. Property and Equipment

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land, building and improvements	\$ 7,716,973	\$ 7,716,973
Construction in progress	13,983	-
Furniture and equipment	569,321	499,504
Transportation equipment	2,684,066	2,458,064
	<u>10,984,343</u>	<u>10,674,541</u>
Less accumulated depreciation	<u>(2,625,382)</u>	<u>(2,208,992)</u>
	<u><u>\$ 8,358,961</u></u>	<u><u>\$ 8,465,549</u></u>

Depreciation expense was \$454,102 (disposal of fixed assets included retirement of \$37,712 of accumulated depreciation) and \$419,401 for 2007 and 2006, respectively.

5. Notes Payable

Notes payable consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
6.5% note, interest and principal due monthly, due November 1, 2011; secured by deed of trust.	\$ 2,308,824	\$ 2,346,437
LIBOR + 1.65% note, with 8.5% cap, interest and principal due monthly, due November 1, 2011; secured by deed of trust; rate was 6.6% and 6.9% at December 31, 2007 and 2006, respectively.	<u>1,942,266</u>	<u>1,995,491</u>
	<u><u>\$ 4,251,090</u></u>	<u><u>\$ 4,341,928</u></u>

Debt maturity

Year ending December 31,

2008	\$ 66,410
2009	72,411
2010	77,949
2011	4,034,320
	<u><u>\$ 4,251,090</u></u>

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

5. Notes Payable (continued)

The Organization has a line of credit from a commercial bank secured by a deed of trust. The maximum credit available was \$500,000 at December 31, 2007 and there was no loan outstanding at that date.

6. Temporarily Restricted Net Assets

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

	2007	2006
Domestic disaster relief and outreaches	\$ 4,649,542	\$ 4,624,820
International relief and outreaches	195,802	69,230
Media	119,669	135,322
Vehicle acquisition	203,904	-
	\$ 5,168,917	\$ 4,829,372

7. Donated Materials and Services

Gifts in-kind recognized during the years ended December 31, 2007 and 2006 consisted of the following:

	2007	2006
Food	\$ 21,236,016	\$ 11,733,042
Supplies	4,330,806	6,407,581
Services and other	796,830	1,070,082
	\$ 26,363,652	\$ 19,210,705

A significant number of volunteers contributed their time to assist Convoy of Hope in its ministry activities. The efforts of many of these volunteer workers have not been reflected in the financial statements, as the service provided did not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

8. Lease Income Under Operating Leases

Convoy of Hope leases excess warehouse space to tenants under lease agreements ranging from month-to-month to five years. Lease income for the years ended December 31, 2007 and 2006 was \$563,584 and \$552,772 respectively.

Projected Lease Income on Non-Cancelable Leases:

Year Ending December 31,	2008	\$	424,680
	2009		424,680
	2010		424,680
	2011		424,680
	2012		176,950
			<hr/>
		\$	1,875,670
			<hr/> <hr/>

9. Income Taxes

Although exempt from federal income tax under Internal Revenue Service Section 501 (c) (3), Convoy of Hope is subject to tax on unrelated business income. In addition to paying estimated taxes during 2007, the financial statements include an additional provision for unrelated business income taxes amounting to \$30,000 for the year ended December 31, 2007.

10. Compensated Absences

Employees of Convoy of Hope 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 as of December 31, 2007 and 2006 amounting to \$49,671 and \$44,967, respectively.

11. Affiliated Organizations and Related Parties

Convoy of Hope and the General Council of the Assemblies of God maintain separate and distinct Boards of Directors. The following summarizes significant affiliations between the two organizations:

Four Board members of Convoy of Hope, as well as the Organization's President, are full-time management level employees of the General Council.

The General Council and its affiliate, the Assemblies of God World Missions, receive donations on behalf of Convoy of Hope. The balance in these accounts for the years ended December 31, 2007 and 2006 was \$117,157 and \$172,793, respectively. These funds are generally disbursed monthly. In addition, the General Council and its affiliate assigned fourteen full-time missionaries to Convoy of Hope, at no cost, to assist in program activities. The value of these services has not been reflected in the accompanying financial statements.

CONVOY OF HOPE, INC.
Notes to Financial Statements
December 31, 2007 and 2006

11. Affiliated Organizations and Related Parties (continued)

Convoy of Hope maintains investment accounts with AG Financial Solutions, an affiliate of the General Council. The balance in these accounts for the years ended December 31, 2007 and 2006 was \$1,392,263 and \$2,067,508, respectively.

Convoy of Hope leases excess warehouse space to two organizations affiliated with the General Council. Lease income for the years ended December 31, 2007 and 2006 was \$160,944 and \$175,050, respectively.

Convoy of Hope purchased services provided by a board member totaling \$6,700 and \$41,720 for the year ended December 31, 2007 and 2006, respectively.