

**CONVOY OF HOPE, INCORPORATED**

Financial Statements

December 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007 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, PC.*

Springfield, Missouri  
May 28, 2009

**CONVOY OF HOPE, INCORPORATED**

## Statements of Financial Position

December 31, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Assets:		
Cash and cash equivalents	\$ 2,968,175	2,461,060
Assets held by field operations	37,388	119,310
Amounts due from other organizations	114,711	117,157
Accounts and other receivables	71,569	99,795
Accounts receivable from federal grants	50,000	99,940
Prepaid expenses	45,913	38,452
Investments	2,000,006	3,556,211
Inventories	4,987,956	6,482,838
Property and equipment, net	8,370,538	8,358,961
Other assets	14,000	10,000
	<hr/>	<hr/>
Total assets	\$ 18,660,256	21,343,724
	<hr/> <hr/>	<hr/> <hr/>
<b><u>Liabilities and Net Assets</u></b>		
Liabilities:		
Accounts payable	\$ 182,167	218,896
Accrued liabilities	149,216	235,349
Notes payable	4,108,929	4,251,090
	<hr/>	<hr/>
Total liabilities	4,440,312	4,705,335
	<hr/>	<hr/>
Net assets:		
Unrestricted	10,641,613	11,469,472
Temporarily restricted	3,578,331	5,168,917
	<hr/>	<hr/>
Total net assets	14,219,944	16,638,389
	<hr/>	<hr/>
Total liabilities and net assets	\$ 18,660,256	21,343,724
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**  
 Statements of Activities  
 Years Ended December 31, 2008 and 2007 (summarized)

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
Support, revenue, and adjustments:				
Contributions	\$ 4,056,105	3,023,304	7,079,409	7,793,681
Gifts-in-kind	36,942,077	-	36,942,077	26,363,652
Investment income	232,213	-	232,213	266,979
Lease income	588,814	-	588,814	563,584
Federal awards	-	199,939	199,939	99,940
Third-party shipping income	167,994	-	167,994	135,608
Merchandise income	4,165	-	4,165	29,514
Other income	28,510	-	28,510	28,592
Net assets released from restrictions in satisfaction of program restrictions	4,813,829	(4,813,829)	-	-
Total support, revenue, and adjustments	<u>46,833,707</u>	<u>(1,590,586)</u>	<u>45,243,121</u>	<u>35,281,550</u>
Expenses:				
Program services:				
International	18,267,037	-	18,267,037	6,808,932
US Outreach	1,869,794	-	1,869,794	1,861,198
US Disaster Response	8,210,943	-	8,210,943	3,654,490
Logistical support and supply lines	15,988,808	-	15,988,808	15,808,112
Total program services	44,336,582	-	44,336,582	28,132,732
Support services:				
Fundraising	1,738,017	-	1,738,017	2,263,815
Administration	1,586,967	-	1,586,967	1,497,069
Total support services	3,324,984	-	3,324,984	3,760,884
Total expenses	<u>47,661,566</u>	<u>-</u>	<u>47,661,566</u>	<u>31,893,616</u>
Change in net assets	(827,859)	(1,590,586)	(2,418,445)	3,387,934
Net assets, beginning of year	11,469,472	5,168,917	16,638,389	13,250,455
Net assets, end of year	<u>\$ 10,641,613</u>	<u>3,578,331</u>	<u>14,219,944</u>	<u>16,638,389</u>

See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**  
Statement of Functional Expenses  
Year Ended December 31, 2008 and 2007 (summarized)

	Program Services					Support Services				
	International	US Outreach	US Disaster Response	Logistical Support and Supply Lines	Total Program Services	Fundraising	Administration	Total Support Services	Total	
									2008	2007
Salaries / payroll taxes	\$ 233,795	275,227	319,372	414,099	1,242,493	645,621	660,369	1,305,990	2,548,483	2,337,713
Employee benefits	47,538	64,641	61,387	78,095	251,661	111,004	106,278	217,282	468,943	410,143
	281,333	339,868	380,759	492,194	1,494,154	756,625	766,647	1,523,272	3,017,426	2,747,856
Advertising and general promotion	10,793	-	16,024	-	26,817	61,067	4,183	65,250	92,067	90,087
Communications and telephone	10,176	327	12,843	-	23,346	2,808	21,434	24,242	47,588	94,879
Conferences, conventions and meetings	14,824	44	10,557	4,244	29,669	12,488	10,972	23,460	53,129	97,707
Contract services	106,611	20	61,810	10	168,451	93,716	28,090	121,806	290,257	321,048
Depreciation	85,471	34,311	72,618	148,385	340,785	29,317	150,837	180,154	520,939	454,102
Dues and memberships	4,051	685	2,493	597	7,826	4,296	5,727	10,023	17,849	-
Equipment, tools and rentals	7,761	62,082	7,659	1,536	79,038	1,270	3,970	5,240	84,278	40,433
Gifts and entertainment	228	364	298	50	940	9,033	5,597	14,630	15,570	22,619
Gifts to other ministries	403,110	16,000	-	-	419,110	-	-	-	419,110	294,672
Gifts-in-kind	15,865,303	1,111,417	6,818,665	14,814,708	38,610,093	-	-	-	38,610,093	22,941,621
Insurance	24,438	-	70	29,375	53,883	680	86,362	87,042	140,925	116,971
Interest	-	-	-	-	-	-	234,125	234,125	234,125	294,704
Licenses and fees	1,718	-	71	27,229	29,018	22,376	7,125	29,501	58,519	77,583
Postage and freight	10,133	863	850	565	12,411	69,235	3,188	72,423	84,834	53,654
Printing and publications	2,046	13,196	1,157	332	16,731	33,234	5,240	38,474	55,205	69,388
Procurement - product & shipping inbound	47,046	11	178,797	187,945	413,799	948	-	948	414,747	555,105
Professional services	5,848	-	26,665	-	32,513	192,263	37,809	230,072	262,585	567,877
Relief and supplies	190,179	36,482	250,387	-	477,048	-	-	477,048	477,048	1,119,268
Repairs and maintenance	7,744	65	23,660	80,448	111,917	23	56,519	56,542	168,459	104,264
Shipping - outbound	658,364	36,540	256,438	34,397	985,739	-	-	-	985,739	450,829
Shipping - outbound (third-party)	-	-	-	159,555	159,555	-	-	-	159,555	138,691
Supplies	23,879	7,130	1,693	7,238	39,940	5,106	18,817	23,923	63,863	73,783
Taxes	-	-	-	-	-	-	66,091	66,091	66,091	67,668
Training and staff development	2,542	-	1,774	-	4,316	2,424	3,618	6,042	10,358	7,787
Travel and special events	496,734	163,178	83,931	-	743,843	441,108	15,737	456,845	1,200,688	1,006,158
Utilities and occupancy	6,705	-	-	-	6,705	-	52,523	52,523	59,228	39,178
Other	-	47,211	1,724	-	48,935	-	2,356	2,356	51,291	45,684
<b>Total functional expenses</b>	<b>\$ 18,267,037</b>	<b>1,869,794</b>	<b>8,210,943</b>	<b>15,988,808</b>	<b>44,336,582</b>	<b>1,738,017</b>	<b>1,586,967</b>	<b>3,324,984</b>	<b>47,661,566</b>	<b>31,893,616</b>

See accompanying notes to financial statements

**CONVOY OF HOPE, INCORPORATED**

Statements of Cash Flows  
Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (2,418,445)	3,387,934
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	520,939	454,102
Loss on disposal of fixed assets	-	2,438
Gain on sale of equipment	-	(2,100)
Non-cash equipment contributions	(150,370)	(45,640)
Non-cash other asset contribution	(4,000)	-
Non-cash decrease (increase) in gifts-in-kind inventory	1,822,386	(3,376,391)
Changes in assets and liabilities:		
Assets held by field operations	81,922	(22,874)
Amounts due from other organizations	2,446	55,636
Accounts and other receivables	28,226	(30,760)
Accounts receivable from federal grants	49,940	(99,940)
Prepaid expenses	(7,461)	(13,046)
Inventories (non gifts-in-kind)	(327,504)	49,109
Accounts payable	(36,729)	82,702
Accrued expenses and deposits	(86,133)	139,829
Net cash (used in) provided by operating activities	(524,783)	580,999
Cash flows from investing activities:		
Acquisition of equipment	(382,146)	(316,212)
Proceeds from sale of equipment	-	14,000
Proceeds from sale of investments	2,556,205	-
Purchase of investments	(1,500,000)	(26,776)
Proceeds from sale of long-term investments	500,000	-
Net cash provided by (used in) investing activities	1,174,059	(328,988)
Cash flows from financing activities:		
Principal payments on notes payable	(142,161)	(90,838)
Net cash used in financing activities	(142,161)	(90,838)
Net increase in cash and cash equivalents	507,115	161,173
Cash and cash equivalents, beginning of year	2,461,060	2,299,887
Cash and cash equivalents, end of year	\$ 2,968,175	2,461,060
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 243,382	294,704
Funds collected and paid on behalf of others	\$ 106,301	-
Non-cash transactions:		
Contribution of gifts-in-kind food and supplies	\$ 36,015,187	25,566,822
Distribution of gifts-in-kind food and supplies	\$ 37,837,573	22,190,431
Contribution of services and use of labor	\$ 682,520	698,690
Contribution and use of facilities	\$ 90,000	52,500

See accompanying notes to financial statements

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

## 1. Nature of Organization

Convoy of Hope, Incorporated is a Christian compassion organization, headquartered in Springfield, Missouri, dedicated to meeting physical and spiritual needs. Convoy 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. Convoy 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. Convoy 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 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 Convoy 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 (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

### **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.

### **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**

Convoy'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 statements 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. All amounts are considered fully collectible and, accordingly, no allowance for uncollectible amounts has been provided.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

## 2. Summary of Significant Accounting Policies (continued)

### **Accounts and Other Receivables**

Accounts receivables 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 collectible 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.

### **Federal Awards Receivable**

Federal awards receivable consist primarily of amounts due from the United States Agency for International Development under executed program awards for carrying out international feeding programs. Amounts are considered fully collectible based on the agreements and, accordingly, no allowance for doubtful accounts has been made.

### **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 currently does not have any unconditional promises to give recorded.

### **Inventories**

Inventories consist of purchased and gift-in-kind commodities recorded at cost as of the date of purchase or fair value as of the date of donation, respectively, 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**

Convoy'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 currently does not have any permanently restricted net assets.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

## 2. Summary of Significant Accounting Policies (continued)

### **Net Assets (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 Convoy. The only limits on unrestricted net assets are broad limits resulting from the nature of Convoy 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'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'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 7.2% and 8.7%, for the years ended December 31, 2008 and 2007, respectively.

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

### **Federal Awards**

Federal awards are recorded as temporarily restricted contributions. Contributions are recognized in the period Convoy receives the award. Awards are requested by Convoy based on the amount of expenditures anticipated to be incurred during the period. Food contribution awards for food distribution are recorded as gifts-in-kind when the commodities are transported 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.

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

### 2. Summary of Significant Accounting Policies (continued)

#### **Gifts-In-Kind**

In accordance with the provisions of SFAS 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 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 (Note 7).

#### **Contributed Services**

In accordance with the provisions of SFAS 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 (Note 7).

#### **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, 2008 and 2007, due to the relatively short maturity of these instruments.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, gains, and other support and expenses during the reporting period. Actual results could differ significantly from those estimates.

#### **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 provisions of SFAS 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 fundraising, 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 exists.

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

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

### 2. Summary of Significant Accounting Policies (continued)

#### **Functional Classification and Allocation of Expenses (continued)**

General and administrative expenses are not identifiable with a single program or fundraising activity but are indispensable to the conduct of those activities and to Convoy'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 accounts for joint costs that include fundraising under the provisions of 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's policy is to allocate all costs which have a fundraising component as 100% fundraising.

#### **Long-Lived Assets**

Convoy accounts for the impairment of long-lived assets under the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes standards for recognizing and measuring impairment of long-lived assets including property and equipment and certain identifiable intangibles. Assets subject to the provisions of SFAS No. 144 are reviewed for impairment and, if such impairment is identified, written down to their fair value. Identified impairment losses are charged to operations in the statement of activities.

#### **Reclassifications**

Certain 2007 amounts have been reclassified to conform with the 2008 financial statement presentation.

#### **Concentration of Credit Risk**

Convoy maintains cash and investments in two financial institutions in excess of the Federal Deposit Insurance Corporation insured limits as of December 31, 2008 and 2007. Management believes no significant risk exists as a result of these uninsured balances due to the size and financial wherewithal of the financial institutions.

#### **Future Accounting Pronouncements**

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statement in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

# CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

## 2. Summary of Significant Accounting Policies (continued)

### **Future Accounting Pronouncement (continued)**

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises annual financial statements for fiscal years beginning after December 15, 2008. Convoy has elected this deferral and accordingly will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, Convoy will continue to evaluate its uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. The impact of adopting FIN 48 is not expected to have a material impact on Convoy's financial statements.

In August 2008, the FASB issued Staff Position No. FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and expands disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds), whether or not an organization is subject to UPMIFA. FSP FAS 117-1 is effective for fiscal years ending after December 15, 1008. The impact of adopting this statement is not expected to have a material impact on Convoy's financial statements.

## 3. Investments

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

	2008	2007
Government securities	\$ 6	2,556,211
Assemblies of God loan fund notes	\$ 2,000,000	1,000,000

**CONVOY OF HOPE, INCORPORATED**

Notes to Financial Statements

December 31, 2008 and 2007

**4. Property and Equipment**

Property and equipment consisted of the following at December 31:

	2008	2007
Land, building and improvements	\$ 7,748,304	7,716,973
Construction in progress	15,583	13,983
Furniture and equipment	642,164	569,321
Transportation equipment	3,110,808	2,684,066
	11,516,859	10,984,343
Less accumulated depreciation	(3,146,321)	(2,625,382)
Property and equipment, net	\$ 8,370,538	8,358,961

Depreciation expense was \$520,939 and \$454,102 (disposal of fixed assets included retirement of \$37,712 of accumulated depreciation) for 2008 and 2007, respectively.

**5. Notes Payable**

Notes payable consisted of the following at December 31:

	2008	2007
6.5% note, interest and principal due monthly, due November 1, 2011; secured by deed of trust.	\$ 2,267,270	2,308,824
LIBOR + 1.65% note, with 8.5% cap, interest and principal due monthly, due November 1, 2011; secured by deed of trust; rate was 2.09% and 6.48% at December 31, 2008 and 2007, respectively.	1,841,659	1,942,266
	\$ 4,108,929	4,251,090
Debt maturity		
Year ending December 31,		
2009		\$ 202,281
2010		208,601
2011		3,698,047
		\$ 4,108,929

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

### 5. Notes Payable (continued)

Convoy has a line of credit from a commercial bank secured by a deed of trust. The maximum credit available was \$500,000 and there was no loan outstanding at December 31, 2008 and 2007.

### 6. Temporarily Restricted Net Assets

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

	2008	2007
Domestic disaster relief and outreaches	\$ 3,138,617	4,649,542
International relief and outreaches	309,700	195,802
Media	75,710	119,669
Vehicle acquisition	54,304	203,904
	<u>\$ 3,578,331</u>	<u>5,168,917</u>

### 7. Donated Materials and Services

Gifts-in-kind recognized during the years ended December 31, 2008 and 2007 consisted of the following:

	2008	2007
Food	\$ 24,265,658	21,236,016
Supplies	11,749,529	4,330,806
Services and other	926,890	796,830
	<u>\$ 36,942,077</u>	<u>26,363,652</u>

A significant number of volunteers contributed their time to assist Convoy 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*.

### 8. Lease Income Under Operating Leases

Convoy 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, 2008 and 2007 was \$588,814 and \$563,584 respectively.

## CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2008 and 2007

### 8. Lease Income Under Operating Leases (continued)

Projected Lease Income on Non-Cancelable Leases:

Year Ending December 31,	2009	\$	442,230
	2010		434,918
	2011		424,680
	2012		176,950
	2013		-
			<hr/>
		\$	<u>1,478,778</u>

### 9. Income Taxes

Convoy has been recognized as exempt from federal income taxes on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code of 1986 (IRC) as an organization described in Section 501(c)(3) of the IRC. Convoy is subject to tax on unrelated business income and, accordingly, pays estimated taxes throughout the year. As a publicly supported organization, Convoy is classified as a public charity and not a private foundation under Section 509(a)(1) of the IRC.

### 10. Compensated Absences

Employees of Convoy 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, 2008 and 2007 amounting to \$58,241 and \$49,671, respectively.

### 11. Affiliated Organizations and Related Parties

Convoy 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, as well as Convoy's President, were 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. The balance in these accounts for the years ended December 31, 2008 and 2007 was \$114,711 and \$117,157, respectively. These funds are generally disbursed monthly. In addition, the General Council and its affiliate assigned fourteen full-time missionaries to Convoy, 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, INCORPORATED**

Notes to Financial Statements

December 31, 2008 and 2007

**11. Affiliated Organizations and Related Parties (continued)**

Convoy maintains investment accounts with AG Financial Solutions, an affiliate of the General Council. The balance in these accounts for the years ended December 31, 2008 and 2007 was \$3,482,156 and \$1,392,263, respectively.

Convoy leases excess warehouse space to two organizations affiliated with the General Council. Lease income for the years ended December 31, 2008 and 2007 was \$160,950 and \$160,944, respectively.

Convoy purchased services provided by a board member totaling \$5,250 and \$6,700 for the years ended December 31, 2008 and 2007, respectively.