

CONVOY OF HOPE, INCORPORATED

Financial Statements

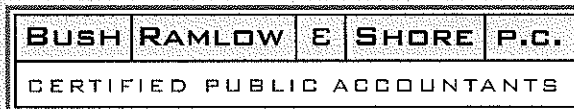
December 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008 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.



Springfield, Missouri
April 29, 2010

CONVOY OF HOPE, INCORPORATED
 Statements of Financial Position
 December 31, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Assets:		
Cash and cash equivalents	\$ 3,087,346	\$ 2,968,175
Contributions receivable from the United States Agency for International Development (USAID)	76,221	50,000
Amounts due from other organizations	84,162	114,711
Accounts and other receivables	131,656	108,957
Investments	-	2,000,006
Inventory	5,503,286	4,987,956
Other assets	14,000	14,000
Prepaid expenses	38,221	45,913
Property and equipment, net	8,105,660	8,370,538
	<u>\$ 17,040,552</u>	<u>\$ 18,660,256</u>
 Total assets	\$ 17,040,552	\$ 18,660,256
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 326,044	\$ 331,383
Notes payable	3,903,654	4,108,929
	<u>4,229,698</u>	<u>4,440,312</u>
 Total liabilities	4,229,698	4,440,312
Net assets:		
Unrestricted (as restated)	6,947,119	6,909,162
Temporarily restricted (as restated)	5,863,735	7,310,782
	<u>12,810,854</u>	<u>14,219,944</u>
 Total net assets	12,810,854	14,219,944
 Total liabilities and net assets	\$ 17,040,552	\$ 18,660,256

See accompanying notes to financial statements

CONVOY OF HOPE, INCORPORATED
Statements of Activities
Years Ended December 31, 2009 and 2008 (summarized)

	Unrestricted	Temporarily Restricted	Totals	
			2009	2008
Support, revenue, and adjustments:				
Contributions	\$ 3,974,972	\$ 1,604,060	\$ 5,579,032	\$ 7,079,409
Public cash and food commodity grants (USAID)	-	519,146	519,146	459,589
Gifts-in-kind	24,914,348	14,805,740	39,720,088	36,682,427
Investment income	104,618	-	104,618	232,213
Lease income	590,546	-	590,546	588,814
Third-party shipping income	186,349	-	186,349	167,994
Other income	8,899	-	8,899	32,675
Net assets released due to satisfaction of program restrictions	18,375,993	(18,375,993)	-	-
Total support, revenue, and adjustments	<u>48,155,725</u>	<u>(1,447,047)</u>	<u>46,708,678</u>	<u>45,243,121</u>
Operating expenses:				
Program services:				
International	14,794,923	-	14,794,923	18,267,037
US Outreach	2,186,276	-	2,186,276	1,869,794
US Disaster Response	1,272,368	-	1,272,368	8,210,943
Logistical support and supply lines	25,894,067	-	25,894,067	15,988,808
Total program services	<u>44,147,634</u>	<u>-</u>	<u>44,147,634</u>	<u>44,336,582</u>
Support services:				
Fundraising	1,967,642	-	1,967,642	1,738,017
Administration	2,002,492	-	2,002,492	1,586,967
Total support services	<u>3,970,134</u>	<u>-</u>	<u>3,970,134</u>	<u>3,324,984</u>
Total operating expenses	<u>48,117,768</u>	<u>-</u>	<u>48,117,768</u>	<u>47,661,566</u>
Change in net assets	37,957	(1,447,047)	(1,409,090)	(2,418,445)
Net assets, beginning of year (as restated)	6,909,162	7,310,782	14,219,944	16,638,389
Net assets, end of year (as restated)	<u>\$ 6,947,119</u>	<u>\$ 5,863,735</u>	<u>\$ 12,810,854</u>	<u>\$ 14,219,944</u>

See accompanying notes to financial statements

CONVOY OF HOPE, INCORPORATED
 Statement of Functional Expenses
 Years Ended December 31, 2009 and 2008 (summarized)

	Program Services					Support Services					Total
	International	US Outreach	US Disaster Response	Logistical		Fundraising	Administration	Support Services	2009	2008	
				Support and Supply Lines	Program Services						
Salaries / payroll taxes	\$ 108,525	\$ 277,987	\$ 320,428	\$ 483,270	\$ 1,110,210	\$ 710,502	\$ 908,082	\$ 1,618,584	\$ 2,728,794	\$ 2,548,483	
Employee benefits	26,410	77,508	71,631	92,160	267,709	149,744	170,625	320,369	588,078	468,943	
	134,935	355,495	392,059	495,430	1,377,919	860,246	1,078,707	1,938,953	3,316,872	3,017,426	
Advertising and general promotion	5,897	28	-	-	5,925	105,373	1,089	106,462	112,387	92,067	
Communications and telephone	3,341	404	8,442	-	12,187	3,286	27,991	31,277	43,464	47,588	
Conferences, conventions and meetings	11,197	2,401	19,953	6,605	40,156	54,418	28,614	83,032	123,188	53,129	
Contract services	15,561	1,579	24,500	85	41,725	45,134	18,027	63,161	104,886	296,257	
Depreciation	88,049	37,763	78,473	153,543	357,828	34,990	159,078	194,068	551,896	520,939	
Dues and memberships	1,936	273	1,600	75	3,884	6,848	8,898	15,746	19,630	17,849	
Equipment, tools and rentals	22,103	64,629	8,282	702	95,716	600	14,525	15,125	110,841	84,278	
Gifts and entertainment	5,209	1,094	254	-	6,557	14,958	6,834	21,792	28,349	15,570	
Gifts to other ministries	288,219	37,000	12,750	15	337,984	6,000.00	34,050.00	40,050	378,034	419,110	
Gifts-in-kind	12,717,702	1,121,120	676,773	24,721,642	39,237,237	-	-	39,237,237	38,610,093	-	
Insurance	17,202	-	-	27,175	44,377	134	77,988	78,122	122,499	140,925	
Interest	-	-	-	-	-	-	180,267	180,267	180,267	234,125	
Licenses and fees	2,384	2,357	2,705	27,159	34,605	16,000	6,830	22,830	57,435	58,519	
Postage and freight	5,872	847	135	181	7,035	54,552	2,175	56,727	63,762	84,834	
Printing and publications	5,302	9,959	1,588	185	17,034	39,968	13,834	53,802	70,836	55,205	
Procurement - product & shipping inbound	24,959	10,692	8,948	193,095	237,694	11,071	-	11,071	248,765	414,747	
Professional services	4,291	-	5,766	-	10,057	186,599	45,720	232,319	242,376	262,585	
Relief and supplies	538,677	255,077	2,779	-	796,533	1,387.00	671.00	2,058	798,591	477,048	
Repairs and maintenance	8,519	-	7,606	82,044	98,169	-	69,941	69,941	168,459	168,459	
Shipping - outbound	533,349	22,865	5,599	26,400	588,213	-	-	588,213	985,739	985,739	
Shipping - outbound (third-party)	-	-	-	152,701	152,701	-	-	-	152,701	159,555	
Supplies	29,598	29,276	2,128	5,237	66,239	5,312	18,859	24,171	90,410	63,863	
Taxes	-	-	-	-	-	-	87,391	87,391	87,391	66,091	
Training and staff development	85	30	1,132	26	1,273	509	5,327	6,600	10,358	10,358	
Travel and special events	315,563	157,590	9,437	1,706	484,296	519,377	70,598	589,975	1,074,271	1,200,688	
Utilities and occupancy	8,825	17	-	-	8,842	-	45,588	45,588	54,430	59,278	
Other	6,148.00	75,780	1,459	61.00	83,448	880.00	(1)	879	84,327	51,291	
Total functional expenses	\$ 14,794,923	\$ 2,186,276	\$ 1,272,368	\$ 25,894,067	\$ 44,147,634	\$ 1,967,642	\$ 2,002,492	\$ 3,970,134	\$ 48,117,768	\$ 47,661,566	

See accompanying notes to financial statements

CONVOY OF HOPE, INC.
Statements of Cash Flows
Years Ended December 31, 2009 and December 31, 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (1,409,090)	\$ (2,418,445)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	551,896	520,939
Non-cash equipment contributions	(123,500)	(150,370)
Non-cash other asset contribution	-	(4,000)
Non-cash (increase) / decrease in GIK inventory	(656,970)	1,822,386
Changes in operating assets and liabilities		
Amounts due from other organizations	30,549	2,446
Accounts and other receivables	(22,699)	110,148
Federal awards receivable	(26,221)	49,940
Prepaid expenses	7,692	(7,461)
Inventories - non GIK	141,640	(327,504)
Accounts payable and accrued expenses	(5,339)	(122,862)
Net cash used in operating activities	(1,512,042)	(524,783)
Cash flows from investing activities:		
Acquisition of equipment	(163,518)	(382,146)
Proceeds from sale of investments	-	2,556,205
Purchase of investments	-	(1,500,000)
Proceeds from sale of long-term investments	2,000,006	500,000
Net cash provided by investing activities	1,836,488	1,174,059
Cash flows from financing activities:		
Principal payments on notes payable	(205,275)	(142,161)
Net cash used in financing activities	(205,275)	(142,161)
Net increase in cash and cash equivalents	119,171	507,115
Cash and cash equivalents at beginning of year	2,968,175	2,461,060
Cash and cash equivalents at end of year	\$ 3,087,346	\$ 2,968,175
Supplemental data:		
Cash paid during the year for interest	\$ 180,267	\$ 243,382
Funds collected and paid on behalf of others	4,250	106,301
Non-cash transactions:		
Contribution of gift-in-kind food and supplies	\$ 39,101,049	\$ 36,015,187
Distribution of gift-in-kind food and supplies	\$ 38,444,079	\$ 37,837,573
Contribution of services and use of labor	\$ 678,460	\$ 682,520
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, 2009 and 2008

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 volunteers, 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 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 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.

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.

Investments

Convoy's investment goal is to invest its available funds in a prudent manner that will minimize investment losses while achieving a reasonable rate of return. Invested funds include those internally or donor designated for various purposes. Convoy's financial assets are invested in United States government securities and loan fund demand and term notes. 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, 2009 and 2008

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, those amounts will be charged to operations when that determination is 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.

Gifts-in-kind

Gifts-in-kind (GIK) received through private donations are recorded in accordance with industry standards, referred to as the Interagency GIK Standards, as developed by an interagency task force appointed by the Association of Evangelical Relief and Development Organizations (AERDO). Gifts-in-kind are valued and recorded as non-cash contributions at their estimated fair value as provided by the donor or, in the absence of donors' valuations, based on Convoy's estimate of wholesale values considering their condition and utility for use, at the time the goods are received from the donor. The recognition of gifts-in-kind contributions is limited to donations where Convoy takes possession or constructive title of the gift-in-kind and either Convoy 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. Gifts-in-kind are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donor intent (Note 9).

Gifts-in-kind expense is recorded when the goods are distributed for program use. While it is Convoy's policy to distribute gifts-in-kind as promptly as possible, undistributed gifts-in-kind are recorded as inventory. The inventory is valued at estimated fair value as provided by the donor or, in the absence of donors' valuations, wholesale values estimated by Convoy (Note 4).

Inventories - Non Gifts-in-kind

Non-GIK inventories consist of purchased product and commodities for use in outreach and disaster response initiatives. Non-GIK inventory distributed expense is recorded when the goods are distributed for program use. While it is Convoy's intent to distribute purchased product and commodities as promptly as possible, undistributed non-GIK product is recorded as inventory. The inventory is valued at cost. Convoy believes this approximates the lower of cost or market. Merchandise inventory held for sale at outreaches is expensed in the period incurred (Note 4).

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Land, building, and equipment expenditures greater than \$1,000 with a useful life of 3 years or more are capitalized at cost when purchased and at estimated fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for computers to 40 years for buildings (Note 5).

The cost of repairs and maintenance and depreciation are charged to expense. 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 whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values.

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.

Temporarily Restricted Net Assets - Temporarily restricted net assets are comprised of gifts, including pledges and trusts, as well as income and gains that can be expended, but for which restrictions have not yet been met. Such restrictions include purpose restrictions wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. 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 7).

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 and any limits resulting from contractual agreements (Note 7).

Convoy'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 7.8% and 7.2%, for the years ended December 31, 2009 and 2008, respectively.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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 fulfill similar projects within Convoy's mission.

Contributions

Contributions are recorded as support when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted.

Federal Grant Contribution Revenue

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 purpose of Convoy. Convoy recognizes these awards as contribution revenue as these transactions are part of Convoy's ongoing major or central activities and separately discloses these amounts on the statement of activities as Public Cash and Food Commodity Grants (Note 8).

Cash contribution revenue is recognized in the period Convoy incurs reimbursable program expenditures. Deferred revenue is recorded when federal funds are received in advance of reimbursable program expenditures 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.

Other Revenue and Expenses

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

Contributed Services

The efforts of volunteer workers 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 (Note 9).

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, 2009 and 2008, 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.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Functional Classification and Allocation of Expenses

The costs of providing various program services and supporting activities have been reported on a functional basis in the statement of activities.

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's policy for accounting for joint costs that include fundraising is to allocate all costs which have a fundraising component as 100% fundraising.

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, information technology, 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.

Long-Lived Assets

Convoy performs ongoing reviews for impairment of long-lived assets, including property and equipment, and, if such impairment is identified, writes the assets down to their fair value. Identified impairment losses are charged to operations in the statement of activities.

Reclassifications

Certain 2008 amounts have been reclassified to conform with the 2009 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, 2009 and 2008. Management believes no significant risk exists as a result of these uninsured balances due to the size and financial wherewithal of the financial institutions.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Pronouncements

Convoy adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) (Accounting Standards Codification (ASC) Topic 740, Income Taxes) for the year ended December 31, 2009. Management evaluated the Organization's tax positions and concluded Convoy had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Convoy adopted the provisions of FASB Statement No. 165, *Subsequent Events* (ASC 855-10) for the year ended December 31, 2009. Subsequent events have been evaluated through April 29, 2010, which is the date the financial statements were available to be issued.

Convoy adopted the fair value provisions of SFAS No. 157, *Fair Value Measurements* (ASC 820-10-55) for the year ended December 31, 2009. In accordance with the statement, fair value is defined as the price that Convoy would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. A three-tier hierarchy was established by ASC to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to Convoy's perceived risk of liquidity profile of that investment. The three-tier hierarchy of inputs is summarized in the three broad levels below:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 - Inputs that are unobservable, including the Organization's own assumptions in determining the fair value of investments.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Correction of an Error

During 2009, Convoy determined that approximately \$3.7 million in ending Gift-in-kind inventory had unmet purpose restrictions which should have been classified and reported as temporarily restricted net assets in 2008. Convoy corrected the internal process to ensure GIK transactions are consistently being reported with all other temporarily restricted contributions. Convoy assessed the materiality of the error on the 2008 financial statements and determined it is a material reclassification in relation to previously reported net asset amounts contained in such financial statements. There was, however, no impact on Convoy's total assets, total net assets, total support, and/or total changes in net assets as contained in such financial statements.

The following table sets forth the effects of the 2008 reclassification correction:

Statement of Net Assets

	As adjusted	As previously reported
Unrestricted net assets, ending net assets	\$ 6,909,162	10,641,613
Temporarily restricted net assets, ending net assets	\$ 7,310,782	3,578,331

Statement of Activities

	As adjusted		As previously reported	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Gifts-in-kind	\$ 19,508,160	17,433,917	36,942,077	-
Nets assets released due to satisfaction of program restrictions	\$ 18,515,295	(18,515,295)	4,813,829	(4,813,829)
Change in net assets	\$ (4,560,310)	2,141,865	(827,859)	(1,590,586)

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

3. Investments

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

	<u>2009</u>	<u>2008</u>
Government securities	\$ -	6
Assemblies of God loan fund notes	\$ -	2,000,000

The investments held by Convoy in 2008 have been classified within Level 2.

4. Inventory

Inventory, which is comprised of GIK food commodities and supplies received for distribution, and food commodities purchased for distribution, fluctuates primarily due to the timing of items received and distributed. Balances were as follows at December 31:

	<u>2009</u>	<u>2008</u>
GIK food inventory	\$ 2,081,400	1,959,455
GIK supply inventory	3,232,007	2,696,982
Purchased food inventory	189,879	331,519
	<u> </u>	<u> </u>
Inventory	<u>\$ 5,503,286</u>	<u>4,987,956</u>

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

5. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Land, building and improvements	\$ 7,773,419	7,748,304
Construction in progress	13,983	15,583
Furniture and equipment	905,668	642,164
Transportation equipment	3,110,808	3,110,808
	<u>11,803,878</u>	<u>11,516,859</u>
Less accumulated depreciation	<u>(3,698,218)</u>	<u>(3,146,321)</u>
Property and equipment, net	<u>\$ 8,105,660</u>	<u>8,370,538</u>

Depreciation expense was \$551,896 and \$520,939 for 2009 and 2008, respectively.

6. Notes Payable

Notes payable consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
6.5% note, interest and principal due monthly, due November 1, 2011; secured by deed of trust.	\$ 2,223,409	2,267,270
LIBOR + 1.65% note, with 8.5% cap, interest and principal due monthly, due November 1, 2011; secured by deed of trust; rate was 1.88% and 2.09% at December 31, 2009 and 2008, respectively.	<u>1,680,245</u>	<u>1,841,659</u>
	<u>\$ 3,903,654</u>	<u>4,108,929</u>

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

6. Notes Payable (continued)

Debt maturity

Year ending December 31:

2010		214,585
2011		3,689,069
		\$ 3,903,654

Convoy had a \$500,000 line of credit from a commercial bank secured by a deed of trust which matured on March 1, 2009. Convoy elected not to renew the line of credit during 2009 and there was no loan outstanding at any time during 2009 or 2008.

7. Net Assets

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

	2009	2008
Working capital	\$ 1,050,915	1,392,048
Property and equipment, net of debt	4,202,006	4,261,609
Undistributed GIK contributions and purchased Inventories	1,694,198	1,255,505
	\$ 6,947,119	6,909,162

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

	2009	2008
Domestic disaster relief and outreaches	\$ 1,736,888	3,109,013
International relief and outreaches	162,941	293,304
Represented by capital equipment and other designated funds	109,818	176,014
Represented by debt retirement designated funds	45,000	-
Represented by undistributed GIK contributions	3,809,088	3,732,451
	\$ 5,863,735	7,310,782

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Notes to Financial Statements

December 31, 2009 and 2008

8. 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>2009</u>	<u>2008</u>
Cash awards from USAID	\$ 216,221	199,939
Food distribution awards from USAID	<u>302,925</u>	<u>259,650</u>
Total cash and food commodity grants	<u>\$ 519,146</u>	<u>459,589</u>

9. Donated Materials and Services

Gifts-in-kind recognized during the years ended December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
GIK Food	\$ 30,150,782	24,006,008
Supplies	8,677,346	11,749,529
Services and other	<u>891,960</u>	<u>926,890</u>
	<u>\$ 39,720,088</u>	<u>36,682,427</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*.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

10. 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, 2009 and 2008 was \$590,546 and \$588,814, respectively.

Future minimum lease payments under non-cancelable leases:

Year Ending December 31:	2010	434,918
	2011	424,680
	2012	176,950
	2013	-
	2014	-
		<hr/>
		\$ 1,036,548

11. 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. In addition to paying estimated taxes during 2009, the financial statements include an additional provision for unrelated business income taxes amounting to \$35,680 for the year ended December 31, 2009. As a publicly supported organization, Convoy is classified as a public charity and not a private foundation under Section 509(a)(2) of the IRC.

12. 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, 2009 and 2008 amounting to \$63,950 and \$58,241, respectively.

CONVOY OF HOPE, INCORPORATED

Notes to Financial Statements

December 31, 2009 and 2008

13. 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 were full-time management level employees of the General Council or its affiliates.

The General Council and its affiliate, the Assemblies of God World Missions, receive pass-thru donations on behalf of Convoy of Hope. The balance in these accounts for the years ended December 31, 2009 and 2008 was \$81,662 and \$114,711, respectively. These funds are generally disbursed monthly.

In addition, Convoy entered into memorandums of understanding with both the General Council and the Assemblies of God World Missions to formalize Convoy's role as the preferred partner with the General Council of the Assemblies of God 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 Convoy as a result of joint appeals are recorded as previously described in Convoy's significant accounting policies, while funds received directly by the General Council and its affiliate are recorded once disbursed to Convoy in relation to approved program activities.

The General Council and its affiliate assigned fifteen 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 maintains investment accounts with AG Financial Solutions, an affiliate of the General Council. The balance in these accounts for the years ended December 31, 2009 and 2008 was \$2,000,000 and \$3,482,156, respectively.

Convoy of Hope leases excess warehouse space to two organizations affiliated with the General Council. Lease income for the years ended December 31, 2009 and 2008 was \$160,944 and \$160,950, respectively.

Convoy of Hope purchased services provided by a board member totaling \$5,250 for the year ended December 31, 2008.