

# Convoy of Hope, Incorporated

## Independent Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012

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**Convoy of Hope, Incorporated**  
**December 31, 2013 and 2012**

**Contents**

**Independent Auditor's Report..... 1**

**Consolidated Financial Statements**

Statements of Financial Position ..... 3  
Statements of Activities..... 4  
Statements of Functional Expenses ..... 5  
Statements of Cash Flows ..... 7  
Notes to Financial Statements ..... 8

## Independent Auditor's Report

Board of Directors  
Convoy of Hope, Incorporated  
Springfield, Missouri

We have audited the accompanying consolidated financial statements of Convoy of Hope, Incorporated, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Convoy of Hope, Incorporated  
Page 2

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Convoy of Hope, Incorporated as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Springfield, Missouri  
June 17, 2014

**Convoy of Hope, Incorporated**  
**Consolidated Statements of Financial Position**  
**December 31, 2013 and 2012**

**Assets**

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 12,720,803	\$ 10,640,815
Assets held by field operations	197,641	56,178
Investments	1,473,494	71,842
Amounts due from other organizations	562,210	368,630
Accounts and other receivables	160,246	146,069
Inventory	18,589,320	10,600,686
Cash value of life insurance	34,620	-
Other assets	19,040	20,684
Prepaid expenses	140,724	199,959
Property and equipment, net	<u>9,618,272</u>	<u>9,661,466</u>
Total assets	<u>\$ 43,516,370</u>	<u>\$ 31,766,329</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 1,624,800	\$ 770,114
Notes payable	<u>5,264,615</u>	<u>5,682,459</u>
Total liabilities	<u>6,889,415</u>	<u>6,452,573</u>

**Net Assets**

Unrestricted	15,457,369	10,415,262
Temporarily restricted	21,102,094	14,898,494
Permanently restricted	<u>67,492</u>	<u>-</u>
Total net assets	<u>36,626,955</u>	<u>25,313,756</u>
Total liabilities and net assets	<u>\$ 43,516,370</u>	<u>\$ 31,766,329</u>

**Convoy of Hope, Incorporated**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2013 and 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 10,998,934	\$ 13,211,899	\$ 57,492	\$ 24,268,325
Public cash grants	-	23,978	-	23,978
Gifts-in-kind	22,180,058	66,045,887	-	88,225,945
Investment return	961,249	-	-	961,249
Other income	820,797	-	-	820,797
Change in donor restrictions	(10,000)	-	10,000	-
Net assets released from restriction due to satisfaction of program restrictions	73,078,164	(73,078,164)	-	-
Total revenue, gains and other support	<u>108,029,202</u>	<u>6,203,600</u>	<u>67,492</u>	<u>114,300,294</u>
<b>Expenses and Losses</b>				
Program services	92,158,229	-	-	92,158,229
Fundraising	7,274,295	-	-	7,274,295
Administration	3,554,571	-	-	3,554,571
Total expenses and losses	<u>102,987,095</u>	<u>-</u>	<u>-</u>	<u>102,987,095</u>
<b>Change in Net Assets</b>	5,042,107	6,203,600	67,492	11,313,199
<b>Net Assets, Beginning of Year</b>	<u>10,415,262</u>	<u>14,898,494</u>	<u>-</u>	<u>25,313,756</u>
<b>Net Assets, End of Year</b>	<u>\$ 15,457,369</u>	<u>\$ 21,102,094</u>	<u>\$ 67,492</u>	<u>\$ 36,626,955</u>

See Notes to Financial Statements

**2012**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 9,798,971	\$ 6,115,798	\$ -	\$ 15,914,769
-	137,525	-	137,525
16,951,428	54,073,972	-	71,025,400
127,705	-	-	127,705
794,955	-	-	794,955
-	-	-	-
<u>60,022,425</u>	<u>(60,022,425)</u>	<u>-</u>	<u>-</u>
<u>87,695,484</u>	<u>304,870</u>	<u>-</u>	<u>88,000,354</u>
78,613,701	-	-	78,613,701
5,727,699	-	-	5,727,699
<u>3,269,967</u>	<u>-</u>	<u>-</u>	<u>3,269,967</u>
<u>87,611,367</u>	<u>-</u>	<u>-</u>	<u>87,611,367</u>
84,117	304,870	-	388,987
<u>10,331,145</u>	<u>14,593,624</u>	<u>-</u>	<u>24,924,769</u>
<u>\$ 10,415,262</u>	<u>\$ 14,898,494</u>	<u>\$ -</u>	<u>\$ 25,313,756</u>

**Convoy of Hope, Incorporated**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2013**

	Program Services					Support Services					Total
	Community Development	Community Events	Disaster Response	Partner Resourcing	Noncore Mission Initiatives	Total Program Services	Fundraising	Administration	Total Support Services		
Advertising and general promotion	\$ -	\$ 177,021	\$ 13,436	\$ -	\$ 1,036	\$ 191,493	\$ 117,773	\$ 84	\$ 117,857	\$ 309,350	
Communications and telephone	6,592	1,292	5,034	360	2,285	15,563	17,286	70,911	88,197	103,760	
Contract labor	18,571	29,532	48,191	15,632	76,410	188,336	247,672	20,745	268,417	456,753	
Depreciation	263,179	32,434	80,290	133,709	-	509,612	62,127	209,014	271,141	780,753	
Equipment, tools and rentals	172,929	31,575	70,238	13,615	4,278	292,635	4,556	11,989	16,545	309,180	
Feeding, outreach, relief and resourcing	1,283,705	479,749	898,294	772,554	(5,914)	3,428,388	-	-	-	3,428,388	
Gifts to other ministries	1,067,992	60,000	531,399	-	498,961	2,158,352	9,927	16,000	25,927	2,184,279	
Gifts-in-kind	28,208,664	2,750,499	3,940,844	45,110,143	-	80,010,150	-	-	-	80,010,150	
Insurance	19,388	10	993	41,632	6,884	68,907	3,917	210,559	214,476	283,383	
Interest	-	-	-	-	-	-	-	128,528	128,528	128,528	
Licenses and fees	16,825	56	2,540	35,108	2,371	56,900	129,409	40,112	169,521	226,421	
Postage and freight	3,905	1,546	455	1,162	719	7,787	179,554	3,981	183,535	191,322	
Printing and publications	928	28,986	21	-	5,738	35,673	180,990	14,885	195,875	231,548	
Professional services	3,605	21,301	170	-	2,576	27,652	459,731	145,295	605,026	632,678	
Repairs and maintenance	36,366	794	80,335	118,305	99	235,899	23,631	138,909	162,540	398,439	
Salaries and benefits	646,189	585,715	719,059	548,510	489,551	2,989,024	3,670,244	2,093,136	5,763,380	8,752,404	
Shipping - outbound (third-party)	-	-	-	274,411	-	274,411	-	-	-	274,411	
Supplies	71,519	24,153	48,134	7,463	149,878	301,147	17,645	25,194	42,839	343,986	
Taxes	-	-	-	-	-	-	-	91,832	91,832	91,832	
Travel and special events	167,112	235,704	187,639	8,593	450,001	1,049,049	1,915,210	117,900	2,033,110	3,082,159	
Occupancy	7,800	-	145,444	-	9,000	162,244	2,620	119,895	122,515	284,759	
Other	25,199	13,382	47,804	24,899	43,723	155,007	232,003	95,602	327,605	482,612	
<b>Total functional expenses</b>	<b>\$ 32,020,468</b>	<b>\$ 4,473,749</b>	<b>\$ 6,820,320</b>	<b>\$ 47,106,096</b>	<b>\$ 1,737,596</b>	<b>\$ 92,158,229</b>	<b>\$ 7,274,295</b>	<b>\$ 3,554,571</b>	<b>\$ 10,828,866</b>	<b>\$ 102,987,095</b>	



**Convoy of Hope, Incorporated**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2012**

	Program Services					Support Services				
	Community Development	Community Events	Disaster Response	Partner Resourcing	Noncore Mission Initiatives	Total Program Services	Fundraising	Administration	Total Support Services	Total
Advertising and general promotion	\$ -	\$ 170,439	\$ -	\$ -	\$ 3,265	\$ 173,704	\$ 34,786	\$ 14,698	\$ 49,484	\$ 223,188
Communications and telephone	2,150	4,138	6,179	435	12,032	24,934	12,795	57,141	69,936	94,870
Contract labor	12,946	3,286	20,608	13,400	59,904	110,144	152,449	24,448	176,897	287,041
Depreciation	268,867	34,064	108,274	88,624	-	499,829	67,962	247,177	315,139	814,968
Equipment, tools and rentals	3,119	12,651	13,535	1,923	66	31,294	6,705	9,272	15,977	47,271
Feeding, outreach, relief and resourcing	1,519,549	419,785	1,042,011	612,840	-	3,594,185	-	-	-	3,594,185
Gifts to other ministries	1,532,132	147,050	341,278	-	325,680	2,346,140	17,500	48,500	66,000	2,412,140
Gifts-in-kind	24,185,165	1,895,614	4,647,612	37,167,200	-	67,895,591	-	-	-	67,895,591
Insurance	34,136	138	473	40,187	2,156	77,090	6,622	149,814	156,436	233,526
Interest	-	-	-	-	-	-	-	149,078	149,078	149,078
Licenses and fees	11,181	742	4,525	30,894	297	47,639	138,210	40,158	178,368	226,007
Postage and freight	3,470	1,366	1,426	519	2,040	8,821	172,656	17,739	190,395	199,216
Printing and publications	634	7,174	490	219	2,611	11,128	101,976	18,991	120,967	132,095
Professional services	600	132,380	2,000	-	1,626	136,606	305,420	172,999	478,419	615,025
Repairs and maintenance	24,110	2,100	56,159	110,065	85	192,519	14,637	101,469	116,106	308,625
Salaries and benefits	464,803	526,064	586,515	585,400	43,280	2,206,062	2,683,362	1,741,373	4,424,735	6,630,797
Shipping - outbound (third-party)	-	-	-	205,686	-	205,686	-	-	-	205,686
Supplies	50,819	44,047	18,319	9,733	30,104	153,022	14,803	49,442	64,245	217,267
Taxes	-	-	-	-	-	-	-	116,042	116,042	116,042
Travel and special events	210,870	172,139	177,267	5,071	162,662	728,009	1,837,251	148,307	1,985,558	2,713,567
Occupancy	650	-	43,437	-	9,000	53,087	2,188	84,363	86,551	139,638
Other	12,888	11,564	40,334	10,435	42,990	118,211	158,377	78,956	237,333	355,544
<b>Total functional expenses</b>	<b>\$ 28,338,089</b>	<b>\$ 3,584,741</b>	<b>\$ 7,110,442</b>	<b>\$ 38,882,631</b>	<b>\$ 697,798</b>	<b>\$ 78,613,701</b>	<b>\$ 5,727,699</b>	<b>\$ 3,269,967</b>	<b>\$ 8,997,666</b>	<b>\$ 87,611,367</b>

**Convoy of Hope, Incorporated**  
**Consolidated Statements of Cash Flows**  
**December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Change in net assets	\$ 11,313,199	\$ 388,987
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	780,753	814,968
Loss on disposition of equipment	14,823	300
Noncash equipment contributions	(20,000)	-
Noncash investment contributions	(76,601)	(25,759)
Noncash insurance contributions	(34,620)	-
Net realized and unrealized gain on investments	(897,200)	(3,194)
Noncash increase in gift-in-kind inventory	(8,178,834)	(3,129,809)
Changes in operating assets and liabilities		
Assets held by field operations	(141,463)	(11,819)
Amounts due from other organizations	(193,580)	(110,838)
Accounts and other receivables	3,824	10,475
Federal awards receivable	-	19,575
Prepaid expenses and other assets	60,879	(147,568)
Non gift-in-kind inventories	190,200	(20,162)
Accounts payable and accrued expenses	854,686	228,364
Net cash (used in) provided by operating activities	3,676,066	(1,986,480)
<b>Investing Activities</b>		
Acquisition of equipment	(750,733)	(320,852)
Proceeds from sale of equipment	350	18,675
Acquisition of investments	(516,668)	(53,446)
Proceeds from sale of investments	88,817	10,557
Net cash used in investing activities	(1,178,234)	(345,066)
<b>Financing Activities</b>		
Principal payments on notes payable	(417,844)	(302,128)
Net cash used in financing activities	(417,844)	(302,128)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,079,988	(2,633,674)
<b>Cash and Cash Equivalents, Beginning of Year</b>	10,640,815	13,274,489
<b>Cash and Cash Equivalents, End of Year</b>	\$ 12,720,803	\$ 10,640,815
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 128,508	\$ 157,078
Noncash transactions		
Long-term debt incurred for purchase of building	\$ -	\$ 2,500,000
Note receivable incurred for sale of equipment	\$ 18,000	\$ -

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

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

- *Community development* – The Organization not only provides meals as part of its international feeding initiative to eradicate hunger, but also creates sustainable solutions to help strengthen communities through agricultural initiatives, women’s empowerment education and rural community involvement.
- *Community events* – The Organization provides guests of honor with unconditional love and acceptance through the mobilization, training and resourcing of volunteers from local churches, businesses and communities. Inner city outreach events, primarily conducted in the United States, feature resources such as: free medical and dental screenings, haircuts, food, job placement assistance, entertainment, groceries and connection to local churches and community organizations.
- *Disaster response* – The Organization provides initial response teams, incident support and long-term recovery solutions through its dedicated volunteer network, fleet of tractor-trailers, 300,000 square foot world distribution center and on-the-ground partners. Since 1998, the Organization has quickly and effectively provided emergency food, water, shelter and supplies to survivors throughout the world.
- *Partner resourcing* – Through collaboration with other like-minded organizations throughout the world, the Organization is able to expand its reach by supplying and empowering other organizations with food and other products.

Administrative activities include the functions necessary to support the Organization’s program activities. Administrative activities include those activities that provide governance (Board of Directors), oversight, business and compliance management, financial record keeping, budgeting, legal services, information technology, human resource management and similar activities.

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

***Basis of Presentation and Principles of Consolidation***

The consolidated financial statements include the accounts of Convoy of Hope, Incorporated and its wholly owned and controlled affiliates (collectively, the Organization): Convoy of Hope Foundation (Foundation) and Asper COH Investment Holdings, LLC (ACIHLIC). All intercompany transactions and accounts have been eliminated.

# **Convoy of Hope, Incorporated**

## **Notes to Consolidated Financial Statements**

### **December 31, 2013 and 2012**

The Foundation is comprised of two entities, a trust and a corporation, established by Convoy of Hope, Incorporated, in 2013 under the laws of the State of Delaware as supporting organizations. Both Foundation entities are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and corresponding Delaware provisions.

ACIHLLC is a single-purpose entity organized by Convoy of Hope, Incorporated, in 2012 under the laws of the State of Delaware to invest, reinvest, manage, hold, sell, exchange, transfer and otherwise dispose of the assets.

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

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

#### ***Use of Estimates***

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based on historical experience and various other factors. The actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents, unless the investments are held for meeting restrictions of a capital or endowment nature. At December 31, 2013 and 2012, cash equivalents consisted primarily of demand deposits with original maturities of three months or less and bank repurchase agreements.

At December 31, 2013, the Organization had approximately \$11,235,000 in demand deposits with original maturities of three months or less and bank repurchase agreements, which are not insured or guaranteed by the FDIC.

#### ***Assets Held by Field Operations***

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

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Investments and Investment Return***

The Organization's investment policy allows management to invest idle assets in a prudent manner that will minimize investment losses while achieving a reasonable rate of return. Invested funds include those net assets which are internally or donor designated for various purposes. Investments in equity securities having a readily determinable fair value and in all debt securities are recorded at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return is reflected in the consolidated statements of activities as unrestricted based upon the absence of any donor or legally imposed restrictions. The Organization's marketable securities are held in trust at Charles Schwab and ADM Investor Services.

Donor advised funds (the "Funds") are amounts available for distribution to support public charitable organizations whose purposes are not adverse to the mission of the Organization. Assets of the Funds include the initial gift made in creating the fund, any subsequent property gifts made into the Funds and all income and other proceeds from the foregoing property. The Organization recognizes income to the Funds when assets are contributed. The Funds are the property of the Organization and may be commingled with other funds held by it. The Organization has ultimate authority and control over all property in the Funds. Grants from the Funds are typically initiated when the donor recommends which other organizations should receive grants from their Fund. The Organization usually follows such recommendations, though it is not required to do so. All grants made to other organizations from the Funds are recorded as gifts to other ministries under program expenses.

***Amounts Due from Other Organizations***

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

***Accounts and Other Receivables***

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

***Inventory***

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

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

- *Gifts-in-Kind (GIK) inventory* – GIK inventory primarily consists of donated food, commodities, pharmaceuticals, medical and other supplies. GIK inventory is valued and recorded at estimated fair value based on wholesale price provided by the donor or, in the absence of donors’ valuations, based on management’s estimate of wholesale values considering their condition and utility for use, at the time the goods are received.
- *Non-GIK inventory* – Non-GIK inventory primarily consists of purchased food product for use in outreach initiatives. While it is the Organization’s intent to distribute purchased product as promptly as possible, undistributed non-GIK product is recorded as inventory and valued at cost. Management believes this approximates the lower of cost or market.

***Property and Equipment***

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

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	40	years
Leasehold improvements	15	years
Furniture and equipment	3-10	years
Transportation equipment	7	years

***Long-Lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2013 and 2012.

# Convoy of Hope, Incorporated

## Notes to Consolidated Financial Statements

### December 31, 2013 and 2012

#### **Net Assets**

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

- *Unrestricted net assets* – Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the purposes specified in its articles of incorporation or bylaws and any limits resulting from contractual agreements entered into in the course of its operations.
- *Temporarily restricted net assets* – Temporarily restricted net assets are resources that can be expended, but for which restrictions have not yet been met. When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment are reported as temporarily restricted until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.
- *Permanently restricted net assets* – Permanently restricted net assets are resources subject to donor-imposed stipulations to be invested in perpetuity, and only the income may be available for program and operations.

All revenues and net gains are reported as increases in unrestricted net assets in the consolidated statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, net losses are classified as decreases in unrestricted net assets.

In 2013, the Organization’s Board of Directors (the “Board”) increased the overhead rate assessment from ten percent to twelve percent, with a ceiling of twenty percent. The Organization may apply the 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 consolidated statement of activities as a component of net assets released due to satisfaction of program restrictions. The Organization’s actual overhead rate applied to restricted contributions in connection with this policy was 18.4% and 9.7%, for the years ended December 31, 2013 and 2012, respectively. In addition, if restricted contributions exceed the need of a crisis, the capacity to respond to a crisis and/or when local conditions prevent effective assistance, the Organization’s Board may reallocate these funds to ensure the Organization fulfills its global mission of helping children and families in need.

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Contributions***

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

***Gifts-in-Kind Contributions***

The Organization receives contributions in forms other than cash or investments. Donated food, supplies and pharmaceuticals are recorded as contributions at the date of gift and as expenses when the donated items are distributed. A contribution of land, building or equipment is recorded as an asset at its estimated fair value at the date of the gift, provided the value of the asset and its estimated useful life meet the Organization's capitalization policy. Donated use of facilities is recorded as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is recorded as a contribution and the expense is recorded over the term of use.

The Organization also follows the industry GIK standards as developed by an interagency task force appointed by Accord. Accord is an organization that serves Christian organizations and churches involved in the shared vision of eliminating poverty, working to achieve the highest standards, principles and effectiveness in relief and development. According to these standards, the recognition of GIK contributions is limited to donations where the Organization takes possession or constructive title of the GIK and either the Organization is the original recipient of the gift, the end user of the gift or is involved in partnership with the end-user agency for distribution domestically or internationally.

Food and supply donations are valued as noncash contributions at estimated fair value as provided by the donor or, in the absence of donors' valuations, based on the Organization's estimate of fair value based upon estimates of the wholesale values that would be received for selling goods in their principal exit market considering their condition and utility for use at the time the goods are contributed by the donor. Pharmaceutical donations are valued and recorded at average wholesale prices as provided by the donor or, in the absence of donors' valuations, based on the Organization's estimation of average wholesale price.



**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

GIK expense is recorded when the goods are distributed for program use. While it is the Organization's intent to distribute GIK as promptly as possible, undistributed GIK is recorded as inventory. GIK activity and inventory is reported as unrestricted or temporarily restricted, depending on the donor intent. The Organization does not sell donated GIK and only distributes the goods for program use.

**Contributed Services**

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

	<b>2013</b>	<b>2012</b>
Professional labor hours for Community Events	\$ 1,070,690	\$ 1,026,745
Professional labor hours for Disaster Response	107,988	106,935
CDL driver hours for Partner Resourcing	96,309	90,755
	\$ 1,274,987	\$ 1,224,435

**Public Cash Grants 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, as well as, the United States (US) Department of State's US Embassy in San Salvador to further the exempt purposes of the Organization. The Organization recognizes these awards as contribution revenue as these transactions are part of the Organization's ongoing major or central activities and separately discloses these amounts on the statement of activities as Public Cash Grants.

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

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Income Taxes***

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

The Organization is subject to tax on unrelated business income and, accordingly, pays estimated taxes. In accordance with the provisions associated with accounting for uncertainty in income taxes, management has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported. Additionally, management believes that no accruals for tax liabilities related to uncertain income tax positions are required. Therefore, no reserves for uncertain income tax positions have been recorded.

There have been no increases or decreases in unrecognized tax benefits for current or prior years. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, interest and penalties will be reported as a component of income tax expense. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

As a publicly supported entity, the Organization is classified as a public charity under Section 509(a)(1) of the Code and the Foundation entities are classified as public charities under Section 509(a)(3) of the Code. Contributions to the Organization are tax deductible to donors under section 170 of the Code.

***Expense Recognition and Allocation***

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

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

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

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Reclassifications**

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Investments and Investment Return**

Investments at December 31 consisted of the following:

	<b>2013</b>	<b>2012</b>
Equity securities		
3D Systems Corp	\$ -	\$ 16,005
O'Reilly Automotive, Inc.	3,475	-
Mutual funds		
American Funds Income Fund of America	-	49,018
PIMCO All Asset All Authority	-	6,819
BlackRock Strategic Income Opps Inv A	46,660	-
American Funds Fundamental Invs F1	86,260	-
American Funds New World F1	1,856	-
BlackRock Multi-Asset Income Investor A	25,776	-
Calamos Market Neutral Income A	14,280	-
Ariel Appreciation Fund	9	-
Schwab Short-Term Bond Market	5	-
Exchange traded funds		
Vanguard Intermediate-Term Bond ETF	1,226	-
Vanguard Short-Term Bond ETF	160	-
Commodity options		
March 2014 Corn	(72,813)	-
March 2014 Soybeans	(30,000)	-
May 2014 Soybeans	(95,675)	-
Commodity futures		
March 2014 Corn	4,250	-
March 2014 Soybeans	(11,937)	-
May 2014 Soybeans	4,675	-
January 2014 Soybean Meal	18,000	-
March 2014 Soybean Meal	16,300	-
May 2014 Soybean Meal	9,900	-
Cash held by broker for commodity trading	1,423,705	-
Community Foundation of the Ozarks Hope Fund	27,382	-
	<u>\$ 1,473,494</u>	<u>\$ 71,842</u>

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

Total investment return, including interest income on cash equivalents, is comprised of the following:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 64,049	\$ 124,511
Net realized and unrealized gains	897,200	3,194
	<u>\$ 961,249</u>	<u>\$ 127,705</u>

**Note 3: Inventory**

Inventory at December 31 consists of:

	<b>2013</b>	<b>2012</b>
GIK food inventory	\$ 9,074,102	\$ 4,518,756
GIK supply inventory	8,852,976	5,743,989
GIK medical supply inventory	586,498	71,997
Purchased food inventory	75,245	265,944
Merchandise inventory for sale	499	-
	<u>\$ 18,589,320</u>	<u>\$ 10,600,686</u>

**Note 4: Property and Equipment**

Property and equipment at December 31 consists of:

	<b>2013</b>	<b>2012</b>
Land, buildings and improvements	\$ 10,389,409	\$ 10,348,837
Construction in progress	76,889	13,983
Furniture and equipment	1,199,406	1,106,683
Transportation equipment	4,439,300	3,905,735
	<u>16,105,004</u>	<u>15,375,238</u>
Less accumulated depreciation	6,486,732	5,713,772
	<u>\$ 9,618,272</u>	<u>\$ 9,661,466</u>

Depreciation expense was \$780,753 and \$814,968 for 2013 and 2012, respectively.

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 5: Compensated Absences**

Employees of the Organization are entitled to paid vacations and can carryover unused vacation from one fiscal year to the next. The financial statements include a provision for compensated absences earned, but not paid amounting to \$149,673 and \$134,042 as of December 31, 2013 and 2012, respectively.

**Note 6: Line of Credit**

The Organization has a \$1,000,000 bank line of credit with no stated maturity. At December 31, 2013 and 2012, there was \$0 borrowed against this line. The line is collateralized by real estate and rental income. Interest varies with the bank's prime rate, with a floor of 4%, and is payable monthly. The interest rate was 4% on December 31, 2013 and 2012.

**Note 7: Notes Payable**

	<u>2013</u>	<u>2012</u>
3.5% note, interest and principal due monthly, due August 1, 2018, collateralized by real estate and rental income	\$ 3,202,115	\$ 3,369,959
0%, principal due monthly, due March 1, 2022, collateralized by real estate and rental income ( <i>Note 11</i> )	<u>2,062,500</u>	<u>2,312,500</u>
	<u>\$ 5,264,615</u>	<u>\$ 5,682,459</u>

Aggregate annual maturities of long-term debt at December 31, 2013, are:

2014	\$ 420,250
2015	395,492
2016	400,454
2017	406,166
2018	2,829,754
Thereafter	<u>812,499</u>
	<u>\$ 5,264,615</u>

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 8: Net Assets**

***Unrestricted Net Assets***

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

	<b>2013</b>	<b>2012</b>
Working capital	\$ 1,790,157	\$ 632,893
Board designated debt retirement fund	2,203,567	1,853,567
Property and equipment, net of debt	4,353,657	3,979,007
Donor advised funds	468,989	774,194
ACIHELLC interest	1,275,997	-
Undistributed GIK contributions and purchased inventories	<u>5,365,002</u>	<u>3,175,601</u>
	<u>\$ 15,457,369</u>	<u>\$ 10,415,262</u>

***Temporarily Restricted Net Assets***

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

	<b>2013</b>	<b>2012</b>
Global disaster response	\$ 7,551,188	\$ 6,699,701
Children's feeding initiatives	242,510	126,829
Capital equipment and other designated funds	84,079	646,879
Undistributed GIK contributions	<u>13,224,317</u>	<u>7,425,085</u>
	<u>\$ 21,102,094</u>	<u>\$ 14,898,494</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at December 31 are restricted to:

	<b>2013</b>	<b>2012</b>
Investment in perpetuity, the income of which is expendable to support Convoy of Hope programs	<u>\$ 67,492</u>	<u>\$ -</u>

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

***Net Assets Released from Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events specified by donors, or Board approved allocations.

**Note 9: Endowment**

The Organization had one endowment fund totaling \$67,492 for the year ended December 31, 2013. Going forward, the endowment may include both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body has interpreted the California State Uniform Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

**Note 10: Public Cash Grants**

Cash grant contribution revenue received from the U.S. Department of State for years ended December 31, 2013 and 2012 was \$23,978 and \$0, respectively. Cash grant contribution revenue received from USAID for the years ended December 31, 2013 and 2012, was \$0 and \$137,525, respectively.

**Note 11: Gifts-in-Kind Contributions**

Gifts-in-kind recognized consisted of the following for the years ended December 31:

	<b>2013</b>	<b>2012</b>
Food	\$ 38,827,332	\$ 31,804,035
Pharmaceuticals	27,163,451	24,820,256
Clothing and household goods	18,441,069	10,744,232
Services and other	1,405,987	1,332,435
Medical supplies	1,215,069	858,494
Books	58,438	805,110
Relief supplies	1,114,599	660,838
	<u>\$ 88,225,945</u>	<u>\$ 71,025,400</u>

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 12: Related Party Transactions**

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

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

The GCAG and its affiliate, the Assemblies of God World Missions (AGWM), receive pass-thru donations on behalf of the Organization. The balance in these accounts for the years ended December 31, 2013 and 2012 was \$562,210 and \$366,130, respectively, and are classified on the statement of financial position as amounts due from other organizations. These funds are generally disbursed monthly.

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

Cash contribution revenue recognized under the GCAG and AGWM memorandums of understanding consisted of the following for the years ended December 31:

	<b>2013</b>	<b>2012</b>
Cash contributions from AGWM MOU	\$ 283,794	\$ 177,425
Cash contributions from GCAG MOU	450,000	163,141
	\$ 733,794	\$ 340,566

Cash contribution revenue recognized from GCAG, AGWM and Assemblies of God Foundation, not under the memorandums of understanding, totaled \$2,036,113 and \$385,337 for 2013 and 2012, respectively.

The Organization did not make any cash payments under the GCAG MOU or the AGWM MOU during the years ended December 31, 2013 and 2012.

The GCAG and its affiliate assigned 15 and 13 missionaries to the Organization to assist in program activities during 2013 and 2012, respectively. The value of these services has not been reflected in the accompanying financial statements.



**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

The Organization maintains investment accounts with AG Financial Services, an affiliate of the GCAG. The balances in these accounts at December 31, 2013 and 2012, were \$9,085,392 and \$7,588,781, respectively, and are classified on the consolidated statement of financial position as cash and cash equivalents. In addition, principal payments on the note the Organization secured from AG Financial Services in 2012 were \$250,000 and \$187,500, for the years ended December 31, 2013 and 2012, respectively. AG Financial Services contributed \$245,000 and \$275,000 to the Organization during the years ended December 31, 2013 and 2012, respectively.

The Organization leases excess warehouse space to two organizations affiliated with the GCAG. Lease income for the years ended December 31, 2013 and 2012, was \$126,449 and \$139,101, respectively.

The Organization purchased services provided by board members totaling \$575 and \$25,000 for the years ended December 31, 2013 and 2012, respectively.

**Note 13: Lease Income Under Operating Leases**

The Organization leases excess warehouse space to tenants under lease agreements ranging from month-to-month to 11 years. Lease income was \$491,321 and \$528,893 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease receipts under operating leases are:

2014	\$ 485,933
2015	85,048
2016	5,400
2017	5,400
2018	5,400
Later years	<u>31,275</u>
Total minimum lease receipts	<u><u>\$ 618,456</u></u>

**Note 14: Retirement Plan**

The Organization started a defined contribution retirement plan covering its full-time, regular employees. This plan is available for the benefit of all full-time, regular employees who have completed 90 days of service with the Organization. Employer matching contributions are up to 100% of employee contributions up to a maximum of 5% of compensation. Contributions, which are included in employee benefits in the statement of functional expenses, were \$207,175 and \$216,732 for 2013 and 2012, respectively.

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 15: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

***Recurring Measurements***

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012:

	<b>Fair Value</b>	<b>Markets for Identical Assets (Level 1)</b>	<b>Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
December 31, 2013				
Equity security				
O'Reilly Automotive, Inc.	\$ 3,475	\$ 3,475	\$ -	\$ -
Mutual funds				
BlackRock Strategic				
Income Opps Inv A	46,660	46,660	-	-
American Funds				
Fundamental Invs F1	86,260	86,260	-	-
American Funds New				
World F1	1,856	1,856	-	-
BlackRock Multi-Asset				
Income Investor A	25,776	25,776	-	-
Calamos Market Neutral				
Income A	14,280	14,280	-	-
Ariel Appreciation Fund	9	9	-	-

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Schwab Short-Term Bond Market	\$ 5	\$ 5	\$ -	\$ -
Vanguard Intermediate- Term Bond ETF	1,226	1,226	-	-
Vanguard Short-Term Bond ETF	160	160	-	-
Commodity options				
March 2014 Corn	(72,813)	(72,813)	-	-
March 2014 Soybeans	(30,000)	(30,000)	-	-
May 2014 Soybeans	(95,675)	(95,675)	-	-
Commodity futures				
March 2014 Corn	4,250	4,250	-	-
March 2014 Soybeans	(11,937)	(11,937)	-	-
May 2014 Soybeans	4,675	4,675	-	-
January 2014 Soybean Meal	18,000	18,000	-	-
March 2014 Soybean Meal	16,300	16,300	-	-
May 2014 Soybean Meal	9,900	9,900	-	-
Alternative investment Community Foundation of the Ozarks Hope Fund	27,382	-	27,382	-
December 31, 2012				
Equity security 3D Systems Corp	\$ 16,005	\$ 16,005	\$ -	\$ -
Mutual funds				
American Funds Income Fund of America	49,018	49,018	-	-
PIMCO All Asset All Authority	6,819	6,819	-	-

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2013.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The investments in bank repurchase agreements and AG Financial Solutions Loan Fund notes are accounted for on the cost method and thus not included in this disclosure.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Organization expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. There are no unfunded commitments at December 31, 2013.

**Note 16: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Gifts-in-Kind Contributions***

Gifts-in-kind food donations include gifts from three entities comprising 51% and four entities comprising 57% of the total donated food category for 2013 and 2012, respectively. Gifts-in-kind pharmaceutical and medical supplies donations include gifts from two entities comprising 87% of the total donated pharmaceutical and medical supplies categories for both 2013 and 2012, respectively.

**Convoy of Hope, Incorporated**  
**Notes to Consolidated Financial Statements**  
**December 31, 2013 and 2012**

**Note 17: Subsequent Events**

Subsequent to December 31, 2013, the Organization received Board of Director approval to proceed with the implementation of the following organizational initiative:

Dinarcoin COH Investment Holdings, LLC: A Delaware-based Single Member LLC (SMLLC) established with the intent to invest, reinvest, manage, hold, sell, exchange, transfer and otherwise dispose of assets contributed to or acquired by the Organization and for any other purpose permitted by the Delaware Limited Liability Company Act.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.