

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

CONVOY OF HOPE, INCORPORATED
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - 2022	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - 2021	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8



INDEPENDENT AUDITORS' REPORT

Board of Directors
Convoy of Hope, Incorporated
Springfield, Missouri

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Convoy of Hope, Incorporated and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Convoy of Hope, Incorporated and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Convoy of Hope, Incorporated and its subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Convoy of Hope, Incorporated and its subsidiaries' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Convoy of Hope, Incorporated and its subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Convoy of Hope, Incorporated and its subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Overland Park, Kansas
May 25, 2023

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and Cash Equivalents	\$ 68,458,958	\$ 62,070,806
Assets Held by Field Operations	493,118	562,346
Investments	35,785,590	39,692,308
Amounts Due from Other Organizations	580,521	647,780
Accounts and Other Receivables	32,576	57,318
Inventory	48,625,172	30,110,870
Cash Value of Life Insurance	419,894	419,894
Other Assets	386,089	215,798
Prepaid Expenses	3,419,167	2,475,165
Property and Equipment, Net	66,666,970	29,055,838
Assets Held in Trust by Others	<u>180,516</u>	<u>197,363</u>
Total Assets	<u><u>\$ 225,048,571</u></u>	<u><u>\$ 165,505,486</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 10,013,269	\$ 4,353,203
Notes Payable	<u>-</u>	<u>6,508</u>
Total Liabilities	10,013,269	4,359,711
NET ASSETS		
Without Donor Restrictions	206,996,599	150,962,032
With Donor Restrictions	<u>8,038,703</u>	<u>10,183,743</u>
Total Net Assets	<u><u>215,035,302</u></u>	<u><u>161,145,775</u></u>
Total Liabilities and Net Assets	<u><u>\$ 225,048,571</u></u>	<u><u>\$ 165,505,486</u></u>

See accompanying Notes to Consolidated Financial Statements.

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT						
Contributions	\$ 68,119,826	\$ 65,725,116	\$ 133,844,942	\$ 60,236,594	\$ 49,036,288	\$ 109,272,882
Gifts-in-Kind	372,337,048	4,654,419	376,991,467	307,869,947	6,935,319	314,805,266
Public Cash and Food Commodity Grants	414,980	-	414,980	119,608	-	119,608
Nongovernmental Grants	3,142,587	-	3,142,587	3,076,341	-	3,076,341
Investment Return	526,680	-	526,680	1,856,491	-	1,856,491
Other Income	386,883	-	386,883	1,015,581	-	1,015,581
Loan Forgiveness	-	-	-	3,633,700	-	3,633,700
Gain on Disposal of Asset	29,069	-	29,069	5,102,878	-	5,102,878
Net Assets Released from Restriction Due to Satisfaction of Program Restrictions	72,524,575	(72,524,575)	-	50,254,016	(50,254,016)	-
Total Revenues, Gains, and Other Support	517,481,648	(2,145,040)	515,336,608	433,165,156	5,717,591	438,882,747
EXPENSES AND LOSSES						
Program Services	421,337,816	-	421,337,816	333,657,889	-	333,657,889
Fundraising	22,688,725	-	22,688,725	21,564,744	-	21,564,744
Administration	17,420,540	-	17,420,540	11,855,239	-	11,855,239
Total Expenses and Losses	461,447,081	-	461,447,081	367,077,872	-	367,077,872
CHANGE IN NET ASSETS	56,034,567	(2,145,040)	53,889,527	66,087,284	5,717,591	71,804,875
Net Assets - Beginning of Year	150,962,032	10,183,743	161,145,775	84,874,748	4,466,152	89,340,900
NET ASSETS - END OF YEAR	<u>\$ 206,996,599</u>	<u>\$ 8,038,703</u>	<u>\$ 215,035,302</u>	<u>\$ 150,962,032</u>	<u>\$ 10,183,743</u>	<u>\$ 161,145,775</u>

See accompanying Notes to Consolidated Financial Statements.

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022

	Program Services						Support Services			Total
	Community Development	Community Events	Disaster Responses	Strategic Program Partners	Non-Core Mission Initiatives	Total Program Services	Fundraising	Administration	Total Support Services	
Advertising and General Promotion	\$ 102,814	\$ 9,624	\$ 62,470	\$ 1,154	\$ -	\$ 176,062	\$ 189,393	\$ 8,407	\$ 197,800	\$ 373,862
Contract Labor	214,558	25,239	881,803	-	-	1,121,600	1,056,119	771,305	1,827,424	2,949,024
Depreciation	211,998	-	300,400	486,202	-	998,600	39,837	744,639	784,476	1,783,076
Equipment, Tools, and Rentals	671,484	28,643	345,232	390,001	-	1,435,360	249,939	576,569	826,508	2,261,868
Feeding, Outreach, Relief and Resourcing	5,401,019	135,776	10,711,050	2,499,322	-	18,747,167	335,743	1,189	336,932	19,084,099
Gifts-in-Kind	56,599,650	1,339,504	82,957,110	217,546,397	-	358,442,661	686,464	51,868	738,332	359,180,993
Grants to Other Ministries	9,688,140	2,533,716	6,754,673	30,000	150,000	19,156,529	176,305	121,815	298,120	19,454,649
Insurance	50,920	-	12,359	1,442	-	64,721	4,031	889,703	893,734	958,455
Licenses and Fees	169,081	171	32,716	134,063	220	336,251	158,854	1,809,308	1,968,162	2,304,413
Occupancy	382,021	-	230,785	-	-	612,806	27,764	349,537	377,301	990,107
Office Equipment and Supplies	336,837	9,959	93,243	66,993	-	507,032	232,434	1,006,846	1,239,280	1,746,312
Other	81,186	3,094	46,166	14,067	-	144,513	562,180	72,301	634,481	778,994
Postage and Freight	18,133	1,144	112,561	125,607	-	257,445	261,212	79,254	340,466	597,911
Printing and Publications	13,538	9,707	94,873	5,604	-	123,722	452,605	64,011	516,616	640,338
Professional Services	214,465	120	47,501	-	-	262,086	914,037	1,302,074	2,216,111	2,478,197
Salaries, Benefits, and Taxes	6,588,614	619,547	4,951,053	1,568,100	-	13,727,314	10,331,885	6,942,349	17,274,234	31,001,548
Special Events	2,083,153	10,386	50	-	-	2,093,589	235,054	888,190	1,123,244	3,216,833
Travel, Conferences, and Training	2,213,731	142,238	595,992	178,397	-	3,130,358	6,774,869	1,741,175	8,516,044	11,646,402
Total Functional Expenses	<u>\$ 85,041,342</u>	<u>\$ 4,868,868</u>	<u>\$ 108,230,037</u>	<u>\$ 223,047,349</u>	<u>\$ 150,220</u>	<u>\$ 421,337,816</u>	<u>\$ 22,688,725</u>	<u>\$ 17,420,540</u>	<u>\$ 40,109,265</u>	<u>\$ 461,447,081</u>

See accompanying Notes to Consolidated Financial Statements.

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Program Services					Support Services				
	Community Development	Community Events	Disaster Responses	Strategic Program Partners	Non-Core Mission Initiatives	Total Program Services	Fundraising	Administration	Total Support Services	Total
Advertising and General Promotion	\$ 12,702	\$ 7,742	\$ 20,232	\$ 164	\$ -	\$ 40,840	\$ 399,153	\$ 14,298	\$ 413,451	\$ 454,291
Contract Labor	188,466	21,420	253,115	-	-	463,001	559,231	262,438	821,669	1,284,670
Depreciation	208,065	1,413	305,278	318,495	-	833,251	49,293	371,902	421,195	1,254,446
Equipment, Tools, and Rentals	400,302	4,926	296,844	385,878	-	1,087,950	145,274	454,852	600,126	1,688,076
Feeding, Outreach, Relief and Resourcing	3,106,904	16,611	4,315,907	1,847,552	-	9,286,974	161,581	10,494	172,075	9,459,049
Gifts-in-Kind	69,251,827	107,226	37,834,487	188,742,697	-	295,936,237	948,669	-	948,669	296,884,906
Grants to Other Ministries	6,318,302	2,514,410	2,618,053	37,000	400,000	11,887,765	103,302	234,650	337,952	12,225,717
Insurance	66,143	-	1,870	-	-	68,013	2,613	760,437	763,050	831,063
Licenses and Fees	111,027	147	25,574	128,080	-	264,828	152,294	1,479,160	1,631,454	1,896,282
Occupancy	236,528	-	88,240	-	-	324,768	24,144	788,063	812,207	1,136,975
Office Equipment and Supplies	298,930	4,304	61,896	27,553	-	392,683	288,501	449,928	738,429	1,131,112
Other	49,454	617	17,762	1,755	-	69,588	476,062	298,504	774,566	844,154
Postage and Freight	22,576	1,155	53,177	226,042	-	302,950	193,141	41,765	234,906	537,856
Printing and Publications	11,537	4,683	14,496	266	-	30,982	466,647	63,223	529,870	560,852
Professional Services	102,001	-	27,224	-	-	129,225	1,936,435	593,358	2,529,793	2,659,018
Salaries, Benefits, and Taxes	5,225,497	320,192	1,981,256	2,169,813	-	9,696,758	9,877,844	5,416,632	15,294,476	24,991,234
Special Events	1,834,303	2,500	2,352	-	-	1,839,155	65,837	55,634	121,471	1,960,626
Travel, Conferences, and Training	687,658	60,587	172,943	81,733	-	1,002,921	5,714,723	559,901	6,274,624	7,277,545
Total Functional Expenses	<u>\$ 88,132,222</u>	<u>\$ 3,067,933</u>	<u>\$ 48,090,706</u>	<u>\$ 193,967,028</u>	<u>\$ 400,000</u>	<u>\$ 333,657,889</u>	<u>\$ 21,564,744</u>	<u>\$ 11,855,239</u>	<u>\$ 33,419,983</u>	<u>\$ 367,077,872</u>

See accompanying Notes to Consolidated Financial Statements.

CONVOY OF HOPE, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 53,889,527	\$ 71,804,875
Adjustment to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	1,783,076	1,254,446
Gain on Disposition of Property and Equipment	(29,069)	(5,102,878)
Deferred Gain on Sale of Property	-	6,979,672
Net Realized and Unrealized (Gain) Loss on Investments	695,950	(874,855)
Decrease in Cash Value of Life Insurance	-	(53,334)
Forgiveness of PPP Loan	-	(3,633,700)
(Increase) Decrease in Assets:		
Assets Held by Field Operations	69,228	52,648
Amounts Due from Other Organizations	67,259	(221,289)
Accounts and Other Receivables	24,742	(39,322)
Prepaid Expenses and Other Assets	(1,097,446)	(229,801)
Inventory	(18,514,302)	(17,648,082)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	673,423	(1,157,143)
Deferred Gain on Sale-Leaseback	-	(6,979,672)
Net Cash Provided by Operating Activities	<u>37,562,388</u>	<u>44,151,565</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment	(34,428,496)	(14,034,608)
Acquisition of Investments	(18,738,918)	(15,136,194)
Proceeds from Sale of Investments	21,949,686	17,034,907
Proceeds from Sale of Property and Equipment	50,000	2,926,087
Net Cash Used by Investing Activities	<u>(31,167,728)</u>	<u>(9,209,808)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	(6,508)	(4,234,043)
Net Cash Used by Financing Activities	<u>(6,508)</u>	<u>(4,234,043)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,388,152	30,707,714
Cash and Cash Equivalents - Beginning of Year	<u>62,070,806</u>	<u>31,363,092</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 68,458,958</u>	<u>\$ 62,070,806</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	<u>\$ 19</u>	<u>\$ 154,705</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Assets Purchased with Accounts Payable and Accrued Expenses	<u>\$ 4,986,643</u>	<u>\$ -</u>

See accompanying Notes to Consolidated Financial Statements.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 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. In addition, field teams provide individuals an opportunity to serve people around the world through projects within programs.
- *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.
- *Strategic Program Partners* – 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). All intercompany transactions and accounts have been eliminated.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Principles of Consolidation (Continued)

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for nonprofits. The net assets, revenues, gains and other support and expenses in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Held by Field Operations

The Organization operates in eight foreign field offices using local currency. Assets held by field operations are primarily remaining cash positions of funds forwarded to project field sites for use in carrying out program activities. The field office net assets have been translated at foreign exchange rates in effect at December 31, 2022 and 2021. Foreign office transactions are reported in the foreign currency and converted at the rate in effect at the end of the reporting month. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value are recorded at 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 without donor restrictions based upon the absence of any donor or legally imposed restrictions.

Alternative investments consist of those investments that do not trade in secondary markets and are not redeemable with the issuer on demand in current transactions, such as non-marketable hedge fund and private equity assets. These funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These funds are reported at estimated fair value.

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 assets. 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 assets 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.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts Due from Other Organizations

Amounts due from other organizations are primarily amounts collected by other entities 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 consist primarily of 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

Inventory consists of purchased supplies and donated food, medical products, and other supplies. Purchased inventory is stated at the lower of cost or net realizable value. Donated inventory is stated at fair value as described below under Gifts-in-Kind Contributions. Donated inventory is intended for distribution to qualified organizations only and is not available for sale. Management periodically evaluates the net realizable value of all inventories to ensure any impairment is recognized in the period in which it is incurred.

Assets Held in Trust by Others

Assets held in trust by others are board-designated endowment assets held in an irrevocable trust.

Property and Equipment

Items purchased as land, buildings, building improvements, furniture, equipment, and vehicles are recorded at historical cost. Donated items are recorded at fair market value on the date of the gift. Depreciation of buildings, building improvements, furniture, equipment, and vehicles is computed using the straight-line method over the estimated useful lives of the assets. All land and buildings are capitalized. Equipment with a cost over \$5,000 and a useful life of more than three years is capitalized. Repairs and maintenance costs not significantly increasing the useful life of the asset are expensed as incurred.

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

Buildings	40 Years
Building Improvements	15 Years
Furniture and Equipment	3 to 10 Years
Transportation Equipment	7 Years

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021.

Leases

The Organization leases warehouses, distribution centers, office space, residential apartments, and equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on our consolidated balance sheets. There were no ROU assets and liabilities at December 31, 2022 and 2021.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated balance sheet.

The Organization has elected not to separate non lease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization uses rates implicit in the lease, or if not readily available, the Organization's incremental borrowing rate. The incremental borrowing rate used is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by Organization assets. Determining a credit spread as secured by Organization assets may require significant judgment.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

Revenue is recognized when earned. The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. At December 31, 2022 and 2021, the Organization had not received any conditional contributions.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received but not yet earned are reported as a refundable advance in the consolidated statement of financial position. The Organization received cost-reimbursable grants for which qualifying expenditures have been incurred and revenue recognized of \$3,142,587, with deferred revenue of \$803,036 recognized in the consolidated statement of financial position as an accrued liability.

Contributions other than gifts-in-kind are primarily cash contributions derived from ongoing fundraising initiatives. All contributions are considered to be available without donor restrictions unless specified by the donor. Bequests are recorded as income and contribution receivable when the probate court declares the will is valid and the Organization has an irrevocable right to the bequest.

Contributions received with donor restrictions by the Organization may have an assessment applied at the time of donation to cover fundraising and administrative costs of up to 20%. At the time of assessment, which aligns with when the expenses are incurred, the net assets are reclassified from with donor restrictions to without donor restrictions 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 12% for the years ended December 31, 2022 and 2021.

The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the asset. A donor restriction expires when the stipulated time ends or purpose restriction is accomplished. 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. Net assets with donor restrictions are then reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts-in-Kind Contributions

Donated inventory (consisting of food, supplies, medicines, medical supplies, and other goods) for use in ministry programs is recorded as inventory and contribution revenue at its estimated fair value at the date of donation, taking into consideration inventory condition and utility for use. All donated inventory is received from private organizations, nonprofit entities or under government agreements and is considered to be support without donor restrictions unless the inventory explicitly contains donor restrictions. The Organization only records the value of donated inventory in which it was either the original recipient of the gift, was involved in partnership with the end-user organization for distribution domestically or internationally or used in the Organization's programs. The Organization does not sell donated gifts-in-kind (GIK) and only distributes the goods for program use.

Donated property and equipment is recorded as with donor restrictions if donors stipulate how or how long the asset must be used. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions.

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.

In accordance with interagency standards established by the Accord Network, the Organization only records the value of gifts-in-kind for which it receives and exercises variance power, which is the discretion to distribute or redistribute the commodity without the donor's prior consent in accordance with its mission and purpose.

Accordingly, food and supply donations are valued as noncash contributions at estimated fair value as provided by the donor, and verified through third-party website, 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 at estimated fair value based predominantly on partner donor valuations, which approximate either wholesale acquisition cost or average wholesale price. In the absence of donors' valuations, the Organization estimates average wholesale price.

Donated inventory with specific geographic or purpose restrictions are recognized as contributions with donor restrictions. Donor restrictions are satisfied, and donated inventory is released from restriction and reclassified as without donor restrictions, when the donated product has been shipped. Donated inventories received with conditions, such as provision that they cannot be distributed within the United States, are considered limitations rather than purpose restrictions and are therefore, reported as contributions without donor restrictions.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the consolidated financial statements. Accounting principles generally accepted in the United States of America 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 CDL driver hours for Strategic Program Partners totaling \$85,957 and \$85,106 for the years ended December 31, 2022 and 2021, respectively.

Public Cash and Food Commodity Grants

Certain projects of the Organization are assisted by federal cash and food commodity grants through the United States Agency of international Development's (USAID) Office of Food for Peace, as well as the United States (U.S.) Department of State's U.S. Embassy in San Salvador.

Revenues from grants are deemed earned and recognized in the consolidated statements of activities when qualifying costs are incurred for the purposes specified. Grant funds that have been received in advance of qualifying costs being incurred are reported as deferred revenue. 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.

Income Taxes

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 (IRC) as an organization described in Section 501(c)(3) of the IRC.

The Organization is subject to tax on unrelated business income and, accordingly, may have to pay 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.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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.

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

Functional Expense 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 consolidated 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. See Note 17 below as it relates to joint cost allocations.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations related to leasing activities. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Implementation of the new standard did not result in material changes to amounts reported in the consolidated financial statements but did require enhanced disclosures about the entity's leasing activities.

The Organization adopted the requirements of the guidance effective January 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, with certain practical expedients available.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected the available practical expedient to use hindsight in determining the lease term.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)

In September 2020, FASB issued ASU 2020-07 *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This update increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancement to presentation and disclosure, including presentation of contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash and other financial assets. This ASU was implemented for the year ended December 31, 2022 and has been applied on a retrospective basis through additional disclosures and reclassifications of amounts presented for the 2021 consolidated financial statements.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, and investments.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for fiscal years 2022 and 2021.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 68,458,958	\$ 62,070,806
Assets Held by Field Operations	493,118	562,346
Accounts Receivable	613,097	705,098
Operating Investments	35,785,590	39,692,308
Assets Held in Trust by Others	<u>180,516</u>	<u>197,363</u>
Total Financial Assets	105,531,279	103,227,921
Cash Restricted to Specific Uses	(6,492,001)	(7,373,271)
Board Designations:		
Endowments	<u>(180,516)</u>	<u>(197,363)</u>
Financial Assets Available to Meet Cash		
Needs for Expenditures Within One Year	<u><u>\$ 98,858,762</u></u>	<u><u>\$ 95,657,287</u></u>

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 INVESTMENTS AND INVESTMENT RETURN

Investments consisted of the following at December 31:

	2022	2021
Mutual Funds	\$ 599,290	\$ 800,513
Exchange Traded Funds	1,427,779	3,169,043
Equity Securities	911,150	1,072,033
Commodity Options	-	(45,688)
Commodity Futures	-	2,875
Fixed Income	758,383	951,224
Cash Held by Broker	895,346	1,369,496
U.S. Treasury Bills	13,887,731	-
Loan Fund Notes (Greater than 30 Days)	5,251,955	20,585,019
Alternative Investments:		
Community Foundation of the Ozarks Hope Fund	44,322	50,788
Foundation Capital Resources	11,209,634	10,837,005
Predictive Fitness, Inc.	800,000	400,000
Texoma Revenue Fund III, LP	-	500,000
Total	<u>\$ 35,785,590</u>	<u>\$ 39,692,308</u>

NOTE 4 INVENTORY

Inventory consists of the following at December 31:

	2022	2021
GIK Food Inventory	\$ 22,488,924	\$ 7,682,937
GIK Supply Inventory	21,033,633	19,134,107
GIK Medical Supply Inventory	3,219,799	2,399,462
GIK Disaster Relief Inventory	643,206	358,581
Purchased Food Inventory	1,239,610	535,783
Total	<u>\$ 48,625,172</u>	<u>\$ 30,110,870</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2022	2021
Land, Buildings, and Improvements	\$ 27,806,723	\$ 24,795,434
Furniture and Equipment	1,932,433	2,206,841
Transportation Equipment	9,847,176	8,775,398
Construction in Progress	36,152,911	1,311,794
Total Property and Equipment	75,739,243	37,089,467
Less: Accumulated Depreciation	9,072,273	8,033,629
Property and Equipment, Net	<u>\$ 66,666,970</u>	<u>\$ 29,055,838</u>

Depreciation expense was \$1,783,076 and \$1,254,446 for 2022 and 2021, respectively.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6 COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacations and can carry over a portion of unused vacation from one fiscal year to the next. The consolidated financial statements include a provision for compensated absences earned, but not paid amounting to \$816,242 and \$669,514 as of December 31, 2022 and 2021, respectively.

NOTE 7 NOTES PAYABLE

<u>Description</u>	<u>2022</u>	<u>2021</u>
Capital lease obligations covering forklifts expiring September 2021 and April 2022.	\$ -	\$ 6,508
Total Notes Payable	<u>\$ -</u>	<u>\$ 6,508</u>

Property and equipment include the following property under capital leases at December 31, 2022, and 2021:

	<u>2022</u>	<u>2021</u>
Equipment	\$ -	\$ 66,439
Less: Accumulated Depreciation	-	51,409
Total	<u>\$ -</u>	<u>\$ 15,030</u>

NOTE 8 NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions are represented by the following at December 31, 2022, and 2021:

	<u>2022</u>	<u>2021</u>
Working Capital	\$ 86,551,617	\$ 89,326,634
Board-Designated Endowment	180,516	197,363
Property and Equipment, Net of Debt	66,666,970	29,049,330
Donor Advised Funds	4,124,686	3,570,699
Interest in a Limited Liability Company	2,394,340	1,517,606
Undistributed Inventories	47,078,470	27,300,400
Total Net Assets Without Donor Restrictions	<u>\$ 206,996,599</u>	<u>\$ 150,962,032</u>

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 8 NET ASSETS (CONTINUED)

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2022, and 2021:

	2022	2021
Global Disaster Response	\$ 5,168,395	\$ 6,666,160
Community Development	1,048,731	523,627
Community Events	91,391	-
Undistributed GIK Inventory	1,546,702	2,810,472
Investment in Perpetuity, the Income of Which is Expendable to Support Convoy of Hope Programs	183,484	183,484
Total Net assets With Donor Restrictions	<u>\$ 8,038,703</u>	<u>\$ 10,183,743</u>

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

Endowment funds represent assets and net assets that are subject to permanent restriction by gift instruments as prescribed by donors. The principal amount, based on historical gift value of each endowment, is to be maintained permanently. The income derived from each permanent endowment is allocated to revenue with or without donor restrictions per the donor's specifications.

The Organization maintained two endowment funds totaling \$364,000 and \$380,847 at December 31, 2022 and 2021, respectively. One of these funds was a board-designated endowment which totaled \$180,516 and \$197,363 at December 31, 2022 and 2021, respectively, and is included in net assets without donor restrictions. The endowment with donor restrictions totaling \$183,484 at December 31, 2022 and 2021, is maintained under the Convoy of Hope Foundation. Going forward, the Convoy of Hope Foundation 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 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 and Delaware Uniform Prudent Management of institutional Funds Acts (UPMIFA) 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.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 PUBLIC CASH COMMODITY GRANT

Cash grant revenue received from USAID was \$414,980 and \$119,608 for the years ended December 31, 2022 and 2021.

NOTE 11 GIFTS-IN-KIND CONTRIBUTIONS

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

Item Donated	2022	2021	Program Utilization
Food	\$ 175,735,629	\$ 149,222,445	All
Pharmaceuticals and Medical Supplies	28,973,182	29,968,007	All
Clothing and Household Goods	169,973,781	133,692,565	All
Services	85,957	85,106	Strategic Program
Relief Supplies	2,222,918	1,837,143	Partners
Total Gift-in-Kind Contributions	<u>\$ 376,991,467</u>	<u>\$ 314,805,266</u>	Disaster Response

NOTE 12 RELATED PARTY TRANSACTIONS

The Organization and the General Council of the Assemblies of God (GCAG) maintain separate and distinct boards of directors. The following summarizes significant affiliations between the two organizations:

Two directors 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-through donations on behalf of the Organization. The balance in these accounts for the years ended December 31, 2022 and 2021 was \$580,521 and \$647,780, respectively, and is reported on the consolidated 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.

No cash contribution revenue was recognized under the GCAG and AGWM memorandums of understanding for 2022 and 2021.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 12 RELATED PARTY TRANSACTIONS (CONTINUED)

Cash contribution revenue recognized from GCAG and AGWM, not under the memorandums of understanding, totaled \$4,659,409 and \$3,224,183 for 2022 and 2021, respectively.

The Organization did not make any cash payments under the GCAG MOU or the AGWM MOU during the years ended December 31, 2022 and 2021.

The GCAG and its affiliate assigned missionaries to the Organization to assist in program activities during 2022 and 2021 totaling 11 and 16, respectively. The value of these services has not been reflected in the accompanying consolidated financial statements.

The Organization maintains investment accounts with AG Financial Services (AGFS) and the Assemblies of God Foundation (AG Foundation), both affiliated with the GCAG. The balance in the AGFS accounts at December 31, 2022 and 2021, was \$47,399,006 and \$61,673,019, respectively, and is reported on the consolidated statement of financial position as Cash Equivalents and Investments. These accounts earned investment return of \$638,764 and \$482,391 in 2022 and 2021, respectively. The Organization maintains board-designated endowment funds at AG Foundation with a balance of \$180,516 and \$197,363 at December 31, 2022 and 2021, respectively. These funds are reported as assets held in trust by others on the consolidated statements of financial position and reported investment loss of \$16,847 in 2022 and earned investment return of \$24,677 in 2021. In addition, principal payments on the 0% interest note the Organization secured from AGFS in 2012 was \$250,000 for the year ended December 31, 2021. The note had a balance of \$-0- at December 31, 2022 and 2021. Principal payments on the 4.5% interest note the Organization secured from AGFS in 2021 were \$3,899,415 for the year ended December 31, 2021. The note had a balance of \$-0- for the years ended December 31, 2022 and 2021. AGFS contributed \$500 and \$210 to the Organization during the years ended December 31, 2022 and 2021, respectively.

On June 6, 2020, the Organization signed an agreement with AGFS for an adjustable rate secured note up to \$3,925,000 with a maturity date of July 1, 2040. The agreement has an initial interest rate of 4.5% subject to change every 36 months based on the Lender's prevailing interest rate at that time but not to be less than 4.5%. This loan was closed during 2021.

On January 26, 2021, the Organization signed an agreement with AGFS for an adjustable rate secured note up to \$10,000,000 with an interest rate of 4.5%. On February 1, 2023, this agreement could have been converted to permanent financing with a maturity date of February 1, 2043. The balance on this loan was \$-0- at December 31, 2022 and 2021.

The Organization leases excess warehouse space to two organizations affiliated with the GCAG. These leases expired during 2021. Lease income for the years ended December 31, 2022 and 2021 was \$-0- and \$42,811, respectively.

The Organization purchased services provided by board members totaling \$97,149 and \$59,300 for the years ended December 31, 2022 and 2021, respectively.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 \$19,186 and \$301,439 for the years ended December 31, 2022 and 2021, respectively. Remaining leases terminated during 2022. No future minimum lease receipts at December 31, 2022.

NOTE 14 OPERATING LEASES

In September 2019, the Organization entered into a sale-leaseback agreement with an unrelated party involving a building. Under the arrangement, the building with a net book value of \$3,409,967 was sold for \$14,941,596 and leased back under a three-year operating lease agreement. The lease was terminated during 2021. The Organization was recognizing the gain on the sale of the leaseback transaction over the life of the lease, which resulted in a realized gain of \$6,979,672 and a deferred gain of \$-0- at December 31, 2021.

The Organization has office, warehouse, residential, and equipment leases on either a month-to-month basis or under cancellable short-term leases. Lease expense under these operating lease arrangements for the years ended December 31, 2022 and 2021 was \$984,287 and \$875,792, respectively.

NOTE 15 RETIREMENT PLAN

The Organization offers employees a defined contribution retirement plan. This plan is available for the benefit of all full-time, regular employees who have completed 90 days of service with the Organization. The Organization matches 100% of employee contributions up to a maximum of 5% of compensation. Contributions, which are included in employee benefits in the consolidated statement of functional expenses, were \$894,090 and \$723,654 for 2022 and 2021, respectively.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 16 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 consolidated 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, 2022 and 2021:

	2022			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 599,290	\$ -	\$ -	\$ 599,290
Exchange Traded Funds	1,427,779	-	-	1,427,779
Equity Securities	911,150	-	-	911,150
Fixed Income	-	758,383	-	758,383
U.S. Treasury Bills	13,887,731			13,887,731
Alternative Investments:				
Community Foundation of the				
Ozarks Hope Fund	-	-	44,322	44,322
Total	<u>\$ 16,825,950</u>	<u>\$ 758,383</u>	<u>\$ 44,322</u>	<u>\$ 17,628,655</u>

	2021			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 800,513	\$ -	\$ -	\$ 800,513
Exchange Traded Funds	3,169,043	-	-	3,169,043
Equity Securities	1,072,033	-	-	1,072,033
Commodity Options	(45,688)	-	-	(45,688)
Commodity Futures	2,875	-	-	2,875
Fixed Income	-	951,224	-	951,224
Alternative Investments:				
Community Foundation of the				
Ozarks Hope Fund	-	-	50,788	50,788
Total	<u>\$ 4,998,776</u>	<u>\$ 951,224</u>	<u>\$ 50,788</u>	<u>\$ 6,000,788</u>

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 16 DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

The following is a summary of the activity for the year ended December 31, 2022 and 2021 of assets and liabilities, measured at fair value on a recurring basis using significant unobservable (Level 3) inputs.

	Ozarks Hope Fund	
	2022	2021
Purchases	\$ 650	\$ 300

The following is a summary of market value technique for ending balances of assets and liabilities, measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended December 31, 2022 and 2021.

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs
	2022	2021		
Ozarks Hope Fund	\$ 44,322	\$ 50,788	Net Asset Value	Value of Underlying Assets

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 consolidated 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 years ended December 31, 2022 and 2021.

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 loan fund notes, which are certificates of deposit having maturities greater than three months, are accounted for on the cost method and thus not included in this disclosure.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 17 JOINT COSTS

The Organization incurred joint costs of \$7,629,033 and \$6,941,532 for special events and activities that included fundraising appeals during the years ended December 31, 2022 and 2021, respectively. These costs were allocated as follows:

	Travel, Conferences, and Training	
	2022	2021
Program Services	\$ 2,059,900	\$ 1,826,952
Fundraising	5,569,133	5,114,580
Total Joint Costs	<u>\$ 7,629,033</u>	<u>\$ 6,941,532</u>

NOTE 18 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:

Contributions

Gifts-in-kind donations include gifts from three donors 43% of the total gift-in-kind donated in 2021. Contributions from one donor comprised 14% of the total contributions received in 2021.

Cash

The Organization maintains cash balances at multiple banks. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to specified limits. The Organization had uninsured balances totaling \$21,477,331 at December 31, 2022.

NOTE 19 COMMITMENTS

As of December 31, 2022, the Organization has commitments totaling \$13,142,796 for the construction of a new office building.

NOTE 20 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

CONVOY OF HOPE, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 21 SUBSEQUENT EVENTS

Management evaluated subsequent events through May 25, 2023, the date the consolidated financial statements were available to be issued. Events or transactions occurring after December 31, 2022, but prior to May 25, 2023, that provided additional evidence about conditions that existed at December 31, 2022, have been recognized in the 2022 consolidated financial statements.

On January 5, 2023, the Organization signed an agreement for a variable rate revolving line of credit with a limit of \$7,500,000 and a maturity date of May 1, 2024. The variable interest rate is half a percentage point below the prime rate as published in the Wall Street Journal with an initial rate of 7.00% per annum.

On March 31, 2023, the Organization entered into a sale-leaseback agreement with an unrelated party involving a building. Under the arrangement, the building with a net book value of approximately \$2,000,000 at December 31, 2022 was sold for \$2,500,000 and leased back under a six-month operating lease agreement. The Organization will recognize the gain on the sale of the leaseback transaction during 2023.

