

COMMON HOPE

Saint Paul, Minnesota

Consolidated Financial Statements

December 31, 2007 and 2006



COMMON HOPE

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Common Hope
Saint Paul, Minnesota

We have audited the accompanying consolidated statement of financial position of Common Hope, a nonprofit organization, and its Affiliate (collectively, "the Organization") as of December 31, 2007 and 2006, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Fundacion Familias de Esperanza ("Fundacion"), Common Hope's affiliate, whose statements reflect total assets of approximately \$571,500 and \$584,400 at December 31, 2007 and 2006, respectively, total revenues and other support of approximately \$2,671,700 and \$2,264,350 (of which the majority is eliminated in consolidation), and total expenses of approximately \$2,632,700 and \$2,282,100 for years ended December 31, 2007 and 2006, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Fundacion is based solely on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Common Hope and its Affiliate as of December 31, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
June 26, 2008

COMMON HOPE

Consolidated Statement of Financial Position

ASSETS	December 31	
	2007	2006
Current Assets		
Cash and equivalents		
U.S.	\$ 526,038	\$ 741,106
Guatemala	88,025	116,401
Total cash and equivalents	614,063	857,507
Current portion of pledges receivable	4,792	35,342
Prepaid expenses	33,424	27,037
Investments, short-term	16,850	24,855
Other	5,936	7,316
Total current assets	675,065	952,057
Investments, net of short-term	768,396	496,819
Pledges Receivable, net of current portion	-	4,687
Property, Plant and Equipment, Guatemala		
Land and land improvements	1,683,520	1,668,951
Buildings	3,875,732	3,599,929
Construction in progress	-	1,452
Equipment	203,582	203,581
Vehicles	159,546	143,175
	5,922,380	5,617,088
Less accumulated depreciation	1,209,563	1,000,410
Net property, plant and equipment, Guatemala	4,712,817	4,616,678
Office Equipment, U.S.	72,266	76,166
Less accumulated depreciation	54,381	54,381
Net office equipment, U.S.	17,885	21,785
Total assets	\$ 6,174,163	\$ 6,092,026
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 220,019	\$ 295,742
Volunteer trip deposits	64,023	48,368
Earnest money deposit	-	20,000
Total current liabilities	284,042	364,110
Net Assets		
Unrestricted	5,578,243	5,190,679
Temporarily restricted	311,878	537,237
Total net assets	5,890,121	5,727,916
Total liabilities and net assets	\$ 6,174,163	\$ 6,092,026

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Consolidated Statement of Activities

	Year Ended December 31 2007		Year Ended December 31 2006			
	Total	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted
Revenues and Other Support						
Contributions	\$ 3,406,472	\$ 1,254,054	\$ 2,152,418	\$ 3,268,545	\$ 1,016,155	\$ 2,252,390
Interest and dividend income	23,052	23,052		17,559		
Unrealized and realized gain (loss) on investments	156,077	156,077		(33,535)		
Program fees	45,980	45,980		13,475		
Miscellaneous, net of expenses of \$46,123 in 2007, and \$23,784 in 2006	65,086	65,086		34,372		
Loss on sale of assets, net	(1,764)	(1,764)		(86,812)		
Net assets released from restrictions:						
Satisfaction of program restrictions		2,377,777	(2,377,777)		2,152,767	(2,152,767)
Total revenues and other support	<u>3,694,903</u>	<u>3,920,262</u>	<u>(225,359)</u>	<u>3,213,604</u>	<u>3,113,981</u>	<u>99,623</u>
Expenses						
Program operating expenses						
Health care	507,191	507,191		504,645		
Family & Community Development	608,451	608,451		625,592		
Housing improvement	270,300	270,300		321,308		
Education	1,604,199	1,604,199		1,389,865		
General and administrative	350,557	350,557		329,697		
Fundraising	192,000	192,000		199,622		
Total expenses	<u>3,532,698</u>	<u>3,532,698</u>		<u>3,370,729</u>		
Change in Net Assets	<u>162,205</u>	<u>387,564</u>	<u>(225,359)</u>	<u>(157,125)</u>	<u>(256,748)</u>	<u>99,623</u>
Net Assets - Beginning of year	<u>5,727,916</u>	<u>5,190,679</u>	<u>537,237</u>	<u>5,885,041</u>	<u>5,447,427</u>	<u>437,614</u>
Net Assets - End of year	<u>\$ 5,890,121</u>	<u>\$ 5,578,243</u>	<u>\$ 311,878</u>	<u>\$ 5,727,916</u>	<u>\$ 5,190,679</u>	<u>\$ 537,237</u>

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Consolidated Statement of Cash Flows

	Year Ended December 31 2007	Year Ended December 31 2006
Cash Flows from Operating Activities		
Change in net assets	\$ 162,205	\$ (157,125)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	211,287	200,228
Unrealized/realized (gain) loss on investments	(156,077)	33,535
Earnest money deposits		20,000
Loss on sale of assets, net	1,765	86,812
Donated stock	(91,713)	(121,985)
Contributions restricted for long-term purposes	(5,000)	(41,875)
Change in assets and liabilities		
Pledges receivable, net	35,237	39,060
Prepaid expenses	(6,387)	2,738
Other current assets	1,380	79,317
Accounts payable and accrued liabilities	(75,722)	(32,232)
Trip deposits	(4,345)	1,672
Net cash from operating activities	72,630	110,145
Cash Flows from Investing Activities		
Proceeds from sale of investments	684,217	584,158
Purchase of investments	(700,000)	(100,000)
Proceeds from sale of equipment		21,765
Purchase of property and equipment	(305,291)	(183,343)
Net cash from (used for) investing activities	(321,074)	322,580
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes	5,000	41,875
Net Increase (Decrease) in Cash and Equivalents	(243,444)	474,600
Cash and Equivalents - Beginning of Year	857,507	382,907
Cash and Equivalents - End of Year	\$ 614,063	\$ 857,507
Supplemental Schedule of Noncash Investing and Financing Activities		
Gifts of stock	\$ 91,713	\$ 121,985

Notes to Consolidated Financial Statements are an integral part of this Statement.



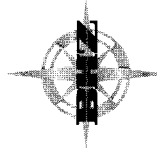
COMMON HOPE

Consolidated Statement of Functional Expenses

		Year Ended December 31 2007								
		Program Operating Expenses								
		Family & Community Development		Housing Improvement		Education		General and Administrative		Fundraising
Total		Health Care	Community Development	Housing Improvement	Education	General and Administrative	Fundraising			
	Specific assistance	\$ 839,535	\$ 129,367	\$ 91,379	\$ 62,783	\$ 556,006				
	Salaries, wages, and benefits	1,857,119	278,609	403,250	90,452	683,623	\$ 266,564	\$ 134,621		
	Supplies and travel	200,689	26,539	35,272	14,347	106,994	12,892	4,645		
	Services and professional fees	31,078	386	889	215	1,349	28,149	90		
	Office and occupancy	330,780	37,780	56,916	20,387	150,055	16,429	49,213		
	Depreciation	211,288	25,001	16,370	67,489	90,884	10,888	656		
	Other	62,209	9,509	4,375	14,627	15,288	15,635	2,775		
	Total expenses	\$ 3,532,698	\$ 507,191	\$ 608,451	\$ 270,300	\$ 1,604,199	\$ 350,557	\$ 192,000		

		Year Ended December 31 2006								
		Program Operating Expenses								
		Family & Community Development		Housing Improvement		Education		General and Administrative		Fundraising
Total		Health Care	Community Development	Housing Improvement	Education	General and Administrative	Fundraising			
	Specific assistance	\$ 644,238	\$ 116,505	\$ 70,954	\$ 63,941	\$ 392,483	\$ 355			
	Salaries, wages, and benefits	1,706,379	268,535	387,177	90,963	615,600	207,018	\$ 137,086		
	Supplies and travel	299,090	30,168	51,693	12,164	138,000	22,332	44,733		
	Services and professional fees	34,825	71	202	26	281	34,099	146		
	Office and occupancy	375,002	45,093	91,180	32,855	162,752	27,554	15,568		
	Depreciation	200,289	26,914	19,897	71,076	69,060	11,758	1,584		
	Other	110,906	17,359	4,489	50,283	11,689	26,581	505		
	Total expenses	\$ 3,370,729	\$ 504,645	\$ 625,592	\$ 321,308	\$ 1,389,865	\$ 329,697	\$ 199,622		

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity

Common Hope and its affiliate, Fundacion Familias de Esperanza (Fundacion), collectively, the “Organization,” are nonprofit organizations devoted to aiding the poor of Guatemala living in and around Antigua and the outskirts of Guatemala City. Common Hope and its affiliate promote hope and opportunity in Guatemala, partnering with children, families and communities who want to participate in a process of development to improve their lives through education, health care and housing. The programs presently conducted by Common Hope and its affiliate include the following:

Education – The Organization provides education for approximately 2,700 children (which approximates growth of 28% as compared to 2006) at the pre-primary, primary, secondary and university levels, including tuition, books, supplies and tutoring. Additionally, literacy and vocational classes are provided for adults. The Organization operates one school and also provides teacher support and skill building through the public school system.

Health Care – Medical staff and volunteers provide preventative and curative care in two clinics that receive 10,000 to 11,000 visits annually. This medical care includes examinations, medications, surgeries, x-rays, lab work, nutritional counseling, pre-natal care and dental care. Health education is provided at outreach programs in local schools and communities.

Family & Community Development – Through a long-term relationship with a Common Hope social worker, families identify goals, obstacles and establish their own individualized development plan. Social workers connect families to resources for dealing with issues such as abuse, alcoholism, legal problems, job placement, and health and educational concerns.

Housing Improvement – The Organization constructs new homes, roofs, stoves and floors as well as installs plumbing and electrical services in existing homes. This work is done in partnership with families who perform community service hours to earn the materials and the construction support.

Housing Improvement – New Hope Site – The Organization operates an additional site in Tres Sabanas, San Pedro Ayampuc, Guatemala, which is on the outskirts of Guatemala City, where it has developed land and provides housing for 42 families. The Organization currently supports the community with a water system, a community center, and a sewage treatment plant.

Common Hope operated as “The Godchild Sponsorship Corporation” from its inception in 1986 until March 2001, when it adopted the name Common Hope.



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Notes to Consolidated Financial Statements

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Basis of Presentation

The financial statements include the accounts of Common Hope, a nonprofit organization incorporated in Minnesota, and its affiliate, a related nonprofit organization incorporated in Guatemala, Central America, under the name of Fundacion Familias de Esperanza (Fundacion). All significant intercompany balances and transactions are eliminated in consolidation. The two entities are collectively referred to as the "Organization" in these financial statements. Fundacion is the entity that carries out the mission of Common Hope in Guatemala.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The Organization reports its financial position and activities according to three classes of net assets as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets - net assets that are not subject to donor-imposed stipulations
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets

At December 31, 2007 and 2006, the Organization had no permanently restricted net assets.

Accounting Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America with respect to the value of donated services, the value of in-kind donations, depreciation lives and the allocation of the functional expenses. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.



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Notes to Consolidated Financial Statements

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Foreign Currency Translation

The functional currency used by Fundacion is the U.S. Dollar. As funds are transferred from Common Hope to Fundacion, they are converted to Guatemalan Quetzals, and expended for the programs in Guatemala. There are no material translation adjustments or material exchange rate differences in these financial statements. The difference in the exchange rates between the statement of financial position date and the date of the audit report would not materially affect these financial statements.

Cash and Equivalents

The Organization considers liquid debt securities with maturities of three months or less to be cash equivalents. At times throughout the year, the Organization's cash deposited in financial institutions in the United States of America may exceed FDIC insurance limits.

Pledges Receivable

Pledges receivable (which represent unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using the risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Pledges receivable is presented net of an allowance for uncollectible contributions.

Investments

Investments in money markets and marketable equity securities are stated at fair market value, based on quoted values. Donated investments are initially recorded at fair market value on the date of donation and thereafter reported in accordance with the Organization's aforementioned investment valuation policy. The donated investments in land (which was sold to an independent third party on March 30, 2007), was recorded at fair value as of the date of receipt, based on the assessed value for real estate purposes. Realized and unrealized gains and losses on investments are recorded in the statement of activities. Investment income is generally absent donor restriction and therefore unrestricted.

Cash, in money market funds that are not federally insured, is included in investments, and totaled \$424,113 and \$112,503 at December 31, 2007 and 2006, respectively.



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Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Property, Plant and Equipment

Property, plant and equipment, which are primarily located in Guatemala, are stated at cost. Donated property, plant and equipment are stated at fair value on the date of contribution. Depreciation is recognized over the estimated useful lives of the assets by use of the straight-line and accelerated methods. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. Common Hope holds title to substantially all property, plant and equipment located in Guatemala, except the New Hope Village land and land improvements, which are owned by Common Hope's affiliate, Fundacion. As of December 31, 2007 the Organization was taking steps to reorganize New Hope Village as a separate legal entity with the intention of donating the land currently functioning as green space and roadways and valued at approximately \$106,000 to the new community when independent legal status is achieved.

Common Hope leases its St. Paul office and warehouse facility on a month-to-month basis. Rent expense totaled \$22,800 and \$37,916 for the years ended December 31, 2007 and 2006, respectively.

Carrying Value of Long-Lived Assets

The Organization tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that the carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash out flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of the estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.



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Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. With regard to gifts of property, plant and equipment or gifts of cash to be used to acquire such assets, absent specific donor stipulations, the Organization reports such gifts as net assets released from restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

A significant portion of the Organization's functions are conducted by unpaid volunteers who include various medical and other professionals who contribute their services to the Organization. The estimated value of the individuals' donated time is approximately \$37,000 and \$48,270 for the years ended December 31, 2007 and 2006, respectively, and is recognized as contributions (revenue) and services and professional fees (expense) in the accompanying financial statements. The Organization also received donated services from numerous other volunteers, the value of which is not recorded in the financial statements because these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Basis of Allocating Functional Expenses

Allocations are generally made as follows:

- Salaries by time spent on principal activities of each employee
- Employee benefits and payroll taxes according to the percentage used to allocate salaries
- All other expenses are directly allocable or allocated in a manner as considered practicable

Income Taxes

Common Hope is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Fundacion is a foundation operating under Guatemalan laws and is generally exempt from taxes based on income.



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Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement is effective for (1) financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years and (2) certain non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is evaluating the effect, if any, that the adoption of SFAS 157 will have on its results of operations, financial position, and the related disclosures.

2. PLEDGES RECEIVABLE

Included in pledges receivable at December 31 are the following unconditional promises to give:

	<u>2007</u>	<u>2006</u>
Unconditional promises to give, in future periods	\$ 5,000	\$ 41,875
Less: unamortized discount		(1,008)
Present value	<u>5,000</u>	<u>40,867</u>
Less: allowance for uncollectibles	<u>(208)</u>	<u>(838)</u>
Net pledges receivable	<u>\$ 4,792</u>	<u>\$ 40,029</u>
Amounts due in:		
Less than one year	\$ 5,000	\$ 36,875
One to five years		<u>5,000</u>
Totals	<u>\$ 5,000</u>	<u>\$ 41,875</u>

The discount rate to calculate the present value of the pledges receivable was 2.2% at December 31, 2007 and 2006.

One pledge represents 100% of the balance as of December 31, 2007 and three pledges represented approximately 96% of the balance at December 31, 2006.



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Notes to Consolidated Financial Statements

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3. INVESTMENTS

Investments are generally held for long-term investment purposes and consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Money market funds	\$ 424,113	\$ 112,503
U.S. equity securities	361,133	365,871
Investment in land		43,300
	<u>785,246</u>	<u>521,674</u>
Totals	<u>\$ 785,246</u>	<u>\$ 521,674</u>

4. LINE OF CREDIT

The Organization had available a \$300,000 unsecured, demand line of credit with its bank, with interest at the prime rate at December 31, 2007 and 2006, respectively. The line was not utilized during 2007 and expired December 31, 2007. At December 31, 2007 and 2006, there was no outstanding balance on the line of credit.

5. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Family & Community Development	\$ 88,434	\$ 58,015
Housing improvement programs	14,721	14,720
Health care programs	39,555	6,061
Education programs	169,168	458,441
	<u>311,878</u>	<u>537,237</u>
Totals	<u>\$ 311,878</u>	<u>\$ 537,237</u>



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Net assets were released from donor restrictions by incurring program expenses and funding capital additions in fiscal years 2007 and 2006. Certain expenditures that are part of the net assets released from donor restrictions were capitalized as construction in progress and totaled approximately \$306,800 and \$506,300 in fiscal years 2007 and 2006, respectively. Total net assets released from donor restrictions because the restricted purposes and occurrence of other events as specified by donors were satisfied were as follows for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Family & Community Development	\$ 1,576,072	\$ 1,659,725
Housing improvement programs	84,596	64,605
Health care programs	150,013	58,317
Education programs	567,096	370,120
	<hr/>	<hr/>
Total net assets released from restrictions	<u>\$ 2,377,777</u>	<u>\$ 2,152,767</u>

6. CONSTRUCTION IN GUATEMALA

In 2000, Common Hope started construction on the Heart of Hope Center, a multi-purpose building designed to accommodate administrative, health care and dental offices; a warehouse; community meeting space; and vision team and short-term volunteer housing in New Hope Village. The building is being constructed in several phases as money becomes available. The clinic, dental offices, community room, warehouse space and first floor office space (comprising the first floor of the building) are completed. The construction expenditures are capitalized on a square footage basis when a discreet phase of the project is completed.

In September 2004, Fundacion Familias De Esperanza entered into a construction agreement with a Guatemalan contractor to begin construction on Phase I of the school which was built in New Hope Village. Construction on the new school was completed during August 2005, and the school opened during 2006. Common Hope now holds title to the school. The total cost of the school, including pre-construction costs, was approximately \$756,000.

In March 2007, Fundacion Familias de Esperanza entered into a construction agreement with a Guatemalan contractor to begin construction on Phase 2 of the school. Construction of the second phase of the school, the pre-primary building, was completed during November 2007 and was used for summer school activities in November. The total cost of the pre-primary building, including pre-construction costs, totaled \$290,000 of which approximately \$276,000 was capitalized as of December 31, 2007.



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7. RETIREMENT BENEFITS

The Organization has a SIMPLE IRA plan for all full-time employees. The Organization matched employee contributions to a maximum of 3% of each covered employee's contribution to the plan for 2007 and 2006. The Organization's matching contribution for the plan totaled \$13,100 and \$12,750 for the years ended December 31, 2007 and 2006, respectively.

8. SALE OF LAND

On March 30, 2007, the Organization sold donated land held as an investment located in Carver County to an unrelated third party. As of December 31, 2006, the land was recorded at a value of \$43,000, which approximated the appraised value at the date of donation. The Organization sold the land at a total price of \$200,000 resulting in a gain of approximately \$156,000. As of December 31, 2006, the Organization had received \$20,000 in earnest money.

