OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Combined Financial Statements

March 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Directors
Operation Blessing International Relief
and Development Corporation:

We have audited the accompanying financial statements of Operation Blessing International Relief and Development Corporation and affiliated organizations, which comprise the combined statements of financial position as of March 31, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Operation Blessing International Relief and Development Corporation and affiliated organizations as of March 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

June 28, 2013

OPERATION BLESSING
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Combined Statements of Financial Position

March 31, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents	$ 6,389,807	6,445,517
Pledges and contributions receivable, net (note 1(d))	814,294	368,594
Prepaid expenses and other	651,340	428,399
Due from affiliate (note 4)	121,753	91,166
Gifts-in-kind inventories	82,755,771	19,140,071
Total current assets	90,732,965	26,473,747
Property and equipment, net (note 2)	1,724,440	2,207,579
Other	120,600	120,851
Total assets	$ 92,578,005	28,802,177
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,053,331	1,238,783
Deferred gifts-in-kind revenue	82,755,771	19,140,071
Total current liabilities	83,809,102	20,378,854
Net assets:		
Unrestricted	3,528,172	1,842,538
Temporarily restricted (note 5)	5,240,731	6,580,785
Total net assets	8,768,903	8,423,323
Commitments (note 3)		
Total liabilities and net assets	$ 92,578,005	28,802,177

See accompanying notes to combined financial statements.

OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Combined Statements of Activities

Years ended March 31, 2013 and 2012

	2013			2012		
	Unrestricted net assets	**Temporarily restricted net assets**	**Total**	**Unrestricted net assets**	**Temporarily restricted net assets**	**Total**
Revenues:						
Contributions	$ 16,913,006	6,007,990	22,920,996	16,641,930	7,623,054	24,264,984
Gifts-in-kind	244,541,155	—	244,541,155	196,659,806	—	196,659,806
Other revenue	110,184	—	110,184	91,135	9,081	100,216
Net assets released from restrictions (note 6)	7,348,044	(7,348,044)	—	9,443,171	(9,443,171)	—
Total revenues	268,912,389	(1,340,054)	267,572,335	222,836,042	(1,811,036)	221,025,006
Expenses:						
Program expenses:						
Hunger Strike Force	6,354,267	—	6,354,267	7,714,786	—	7,714,786
Outreach and humanitarian relief	12,321,245	—	12,321,245	13,727,748	—	13,727,748
Gifts-in-kind	245,276,921	—	245,276,921	197,409,842	—	197,409,842
Total program expenses	263,952,433	—	263,952,433	218,852,376	—	218,852,376
Supporting services:						
Fundraising	1,952,321	—	1,952,321	2,219,860	—	2,219,860
General and administrative	1,338,025	—	1,338,025	1,339,158	—	1,339,158
Total supporting services	3,290,346	—	3,290,346	3,559,018	—	3,559,018
Total expenses	267,242,779	—	267,242,779	222,411,394	—	222,411,394
Gains and losses:						
Gain (loss) on disposal of property and equipment	16,024	—	16,024	(6,942)	—	(6,942)
Increase (decrease) in net assets	1,685,634	(1,340,054)	345,580	417,706	(1,811,036)	(1,393,330)
Net assets at beginning of year	1,842,538	6,580,785	8,423,323	1,424,832	8,391,821	9,816,653
Net assets at end of year	$ 3,528,172	5,240,731	8,768,903	1,842,538	6,580,785	8,423,323

See accompanying notes to combined financial statements.

OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
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Combined Statements of Cash Flows

Years ended March 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Increase (decrease) in net assets	$	345,580	(1,393,330)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		605,498	644,634
Contribution of property and equipment		(9,015)	—
(Gain) loss on disposal of assets		(16,024)	6,942
Decrease in allowance for pledges receivable		(50,222)	(337,678)
Changes in assets and liabilities:			
Pledges and contributions receivable		(395,478)	619,811
Due from affiliate		(30,587)	(91,166)
Prepaid expenses and other		(222,690)	(159,777)
Accounts payable and accrued liabilities		(185,452)	194,677
Due to affiliate		—	(164,825)
Net cash provided by (used in) operating activities		41,610	(680,712)
Cash flows from investing activities:			
Proceeds from sale of property and equipment		16,024	500
Purchases of property and equipment		(113,344)	(679,511)
Net cash used in investing activities		(97,320)	(679,011)
Decrease in cash and cash equivalents		(55,710)	(1,359,723)
Cash and cash equivalents at beginning of year		6,445,517	7,805,240
Cash and cash equivalents at end of year	$	6,389,807	6,445,517

See accompanying notes to combined financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Operation Blessing International Relief and Development Corporation is a controlled affiliate of The Christian Broadcasting Network, Inc. (CBN). The mission of Operation Blessing International Relief and Development Corporation and its affiliated organizations (Operation Blessing) is to bring humanitarian relief to the world's poor and needy. This relief may take the form of in-kind contributions of food, clothing, medical supplies, equipment, and financial support, as well as the furnishing of services, transportation, and facilities. Additionally, Operation Blessing conducts its relief efforts, in part, by assisting charitable organizations worldwide whose purposes and activities are compatible with its own.

(b) Basis of Presentation

The combined financial statements include Operation Blessing International Relief and Development Corporation and its affiliated organizations under common control. All significant intercompany transactions and accounts have been eliminated. The combined financial statements of Operation Blessing have been prepared on the accrual basis of accounting.

These combined financial statements have been prepared to focus on Operation Blessing as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets and revenues, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Operation Blessing's net assets are segregated into the following net asset groups:

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions pursuant to the stipulations and/or the passage of time.

There were no permanently restricted net assets at March 31, 2013 or 2012.

Revenues are reported as increases in the unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions received with donor-imposed restrictions are reported as increases to temporarily restricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets (note 6). Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service.

(c) Cash and Cash Equivalents

Operation Blessing considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consisting of money market funds totaled $5,110,875 and $4,357,690 at March 31, 2013 and 2012, respectively, and are valued

(Continued)

based on unadjusted quoted prices in active markets for identified assets that Operation Blessing has the ability to access at the measurement date.

(d) Pledges and Contributions Receivable

Pledges receivable, which include unconditional promises to give to Operation Blessing, are recognized as revenues in the period the promise is made by the donor and are recorded at estimated net realizable value. Pledges to be received after one year, if any, are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the pledge. Conditional contributions to give are not recognized until the conditions on which they depend are substantially met. Contributions receivable from estate interests are recorded at estimated fair value. The pledges and contributions receivable at March 31, 2013 and 2012 are due within one year.

Operation Blessing has pledges and contributions receivable of $890,686 and $495,208 as of March 31, 2013 and 2012, respectively, net of allowance for uncollectible amounts of $76,392 and $126,614, respectively.

(e) Gifts-in-Kind

Gifts-in-kind are primarily comprised of medicines, school and medical supplies, dried and canned food, produce, clothing, and other relief products. Such items are generally distributed within several weeks after receipt. Gifts-in-kind are recorded at their estimated fair wholesale value when received. There is inherent uncertainty in determining the fair value of donated products. Gifts-in-kind revenue and expense are recognized in the year in which the product is distributed. Amounts at the end of the fiscal year that have not been distributed are included in gifts-in-kind inventories and deferred gifts-in-kind revenue.

(f) Property and Equipment

Property and equipment are stated at cost or at estimated fair value at date of gift if acquired by gift, less accumulated depreciation and amortization. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the related assets, which is five years for medical equipment, disaster relief facilities, vehicles and equipment, office equipment and leasehold improvements, and three to five years for information technology and other equipment. The cost and associated accumulated depreciation of property sold or retired is removed from the accounts and any gain or loss is reflected in the accompanying combined statement of activities.

(g) Functional Expenses

Operation Blessing allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated by various statistical bases.

(h) Noncash Transactions

Gifts-in-kind inventories and deferred gifts-in-kind revenue totaled $82,755,771 and $19,140,071, at March 31, 2013 and 2012, respectively.

(i) Income Taxes

Operation Blessing has been recognized by the Internal Revenue Service as tax exempt under Section 501(c)(3) of the Internal Revenue Code. Contributions to Operation Blessing qualify for a charitable contribution deduction to the extent provided by law.

Operation Blessing recognizes or derecognizes its tax positions based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. Operation Blessing does not believe its combined financial statements include or reflect any uncertain tax positions.

(j) Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be presented separately in the accompanying combined statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(k) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, pledges and contributions receivable, prepaid expenses and other current assets, due from affiliate, gifts-in-kind inventories, other assets, accounts payable and accrued liabilities, and deferred revenue reported in the combined statements of financial position approximate fair value because of the short maturity of these instruments.

(l) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management of Operation Blessing to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the combined financial statements and revenues and expenses recognized during the reporting periods. Significant items subject to such estimates and assumptions include the valuation of pledges and contributions receivable, gifts-in-kind contributions, and the carrying amount of property and equipment. Actual results could differ from those estimates.

(m) Subsequent Events

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires entities to evaluate events that occur after the balance sheet date but before combined financial statements are issued for potential recognition or disclosure. Entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. In preparing these combined financial statements, Operation Blessing has evaluated events and transactions for potential recognition or disclosure through June 28, 2013, the date the combined financial statements were available to be issued, and determined that there were no items to disclose.

(2) Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at March 31, 2013 and 2012:

		2013	2012
Medical equipment	$	—	117,160
Distribution center equipment		457,895	456,434
Disaster relief land, facilities, vehicles, and equipment		4,403,139	4,367,711
Information technology and other equipment		997,859	971,690
Office equipment		242,791	242,791
Leasehold improvements		263,677	231,965
		6,365,361	6,387,751
Accumulated depreciation and amortization		(4,640,921)	(4,180,172)
	$	1,724,440	2,207,579

(3) Lease Commitments

Future minimum commitments for all noncancelable operating leases are as follows:

		Operating leases
Year ending March 31:		
2014	$	1,335,949
2015		1,196,850
2016		626,150
2017		460,027
2018		34,452
	$	3,653,428

Total rent of facilities and equipment amounted to $2,067,646 and $2,277,126 in fiscal years 2013 and 2012, respectively.

(4) Related-Party Transactions

CBN made contributions to Operation Blessing totaling $12,165,382 and $13,655,096 during fiscal years 2013 and 2012, respectively, for certain program and administrative support. Due from affiliate of $121,753 and $91,166 at March 31, 2013 and 2012, respectively, represents contributions from CBN remitted to Operation Blessing subsequent to year-end.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2013 and 2012 consist primarily of unexpended donor restricted funds for disaster relief activities.

(6) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Total net assets released were $7,348,044 and $9,443,171 for the years ended March 31, 2013 and 2012, respectively.

(7) Retirement Plan

Operation Blessing participates in a 403(b) retirement plan administered by CBN. All regular employees are eligible and contributions are fully vested. During fiscal year 2012, Operation Blessing made matching contributions equal to 100% of employee salary deferrals, not to exceed 4% of compensation, totaling $129,726. No matching contributions were made in fiscal year 2013.