



**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Consolidated Financial Statements

March 31, 2016

(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 consolidated financial statements of Operation Blessing International Relief and Development Corporation and affiliated organizations, which comprise the consolidated statement of financial position as of March 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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



Opinion

In our opinion, the consolidated 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, 2016, and the results of their operations and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

July 14, 2016

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Consolidated Statement of Financial Position

March 31, 2016

Assets

Current assets:	
Cash and cash equivalents	\$ 4,969,866
Contributions receivable, net (note 1(d))	784,914
Prepaid expenses and other	847,190
Gifts-in-kind inventories (note 1(e))	35,819,770
Total current assets	42,421,740
Property and equipment, net (note 2)	1,151,820
Other assets	25,000
Total assets	\$ 43,598,560

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,093,118
Due to affiliate, net (note 4)	50,427
Deferred gifts-in-kind revenue (note 1(e))	35,819,770
Total current liabilities	36,963,315
Net assets:	
Unrestricted	3,668,832
Temporarily restricted (note 5)	2,966,413
Total net assets	6,635,245
Commitments (note 3)	
Total liabilities and net assets	\$ 43,598,560

See accompanying notes to consolidated financial statements.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Consolidated Statement of Activities

Year ended March 31, 2016

	Unrestricted net assets	Temporarily restricted net assets	Total
Revenue:			
Contributions (note 4)	\$ 16,534,009	4,967,222	21,501,231
Gifts-in-kind (note 1(e))	286,270,434	—	286,270,434
Other revenue	76,240	239,475	315,715
Net assets released from restrictions (note 6)	5,819,516	(5,819,516)	—
Total revenue	<u>308,700,199</u>	<u>(612,819)</u>	<u>308,087,380</u>
Expenses:			
Program expenses:			
Hunger Strike Force	5,573,077	—	5,573,077
Outreach and humanitarian relief	12,166,535	—	12,166,535
Gifts-in-kind (note 1(e))	287,143,288	—	287,143,288
Total program expenses	<u>304,882,900</u>	<u>—</u>	<u>304,882,900</u>
Supporting services:			
Fundraising	2,423,255	—	2,423,255
General and administrative	1,463,052	—	1,463,052
Total supporting services	<u>3,886,307</u>	<u>—</u>	<u>3,886,307</u>
Total expenses	<u>308,769,207</u>	<u>—</u>	<u>308,769,207</u>
Gain on disposal of property and equipment	10,071	—	10,071
Decrease in net assets	<u>(58,937)</u>	<u>(612,819)</u>	<u>(671,756)</u>
Net assets at beginning of year	<u>3,727,769</u>	<u>3,579,232</u>	<u>7,307,001</u>
Net assets at end of year	<u>\$ 3,668,832</u>	<u>2,966,413</u>	<u>6,635,245</u>

See accompanying notes to consolidated financial statements.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Consolidated Statement of Cash Flows

Year ended March 31, 2016

Cash flows from operating activities:	
Decrease in net assets	\$ (671,756)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	468,264
Gain on disposal of assets	10,071
Changes in assets and liabilities:	
Contributions receivable	120,516
Prepaid expenses and other	(114,425)
Other assets	(25,000)
Accounts payable and accrued liabilities	25,784
Due to affiliate, net	29,170
Net cash used in operating activities	<u>(157,376)</u>
Cash flows from investing activities:	
Proceeds from sale of property and equipment	4,895
Purchases of property and equipment	<u>(172,345)</u>
Net cash used in investing activities	<u>(167,450)</u>
Decrease in cash and cash equivalents	(324,826)
Cash and cash equivalents at beginning of year	<u>5,294,692</u>
Cash and cash equivalents at end of year	<u>\$ 4,969,866</u>

See accompanying notes to consolidated financial statements.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2016

(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 consolidated 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 consolidated financial statements of Operation Blessing have been prepared on the accrual basis of accounting.

These consolidated 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 revenue, 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, 2016.

Revenue is reported as increases in the unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions received and contributions receivable 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 placed in service.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2016

(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 \$3,715,221 at March 31, 2016 and are valued based on unadjusted quoted prices in active markets for identified assets that Operation Blessing has the ability to access at the measurement date.

(d) *Contributions Receivable*

Contributions receivable, which include unconditional promises to give to Operation Blessing, are recognized as revenue in the period the promise is made by the donor and are recorded at estimated net realizable value. Contributions 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 contribution. 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 contributions receivable at March 31, 2016 are due within one year.

Operation Blessing has contributions receivable of \$784,914 at March 31, 2016.

(e) *Gifts-in-Kind*

Gifts-in-kind are primarily comprised of medicines, school and medical supplies, canned and packaged food, produce, clothing, and other relief products. 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 consolidated 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.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2016

(h) *Noncash Transactions*

Gifts-in-kind inventories and deferred gifts-in-kind revenue totaled \$35,819,770 at March 31, 2016.

(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 consolidated 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 consolidated 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, contributions receivable, prepaid expenses and other current assets, due from affiliate, gifts-in-kind inventories, other assets, accounts payable and accrued liabilities, due to affiliates and deferred gifts-in-kind revenue reported in the consolidated statement of financial position approximate fair value because of the short maturity of these instruments.

(l) *Use of Estimates*

The preparation of consolidated 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 consolidated financial statements and revenue 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.

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2016

(m) Subsequent Events

The preparation of consolidated 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 consolidated 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 consolidated financial statements, Operation Blessing has evaluated events and transactions for potential recognition or disclosure through July 14, 2016, the date the consolidated financial statements were available to be issued, and determined that there were no items to disclose.

(n) Adjustments to Prior Year Net Asset Classifications

During 2016, management determined that Operation Blessing's contributions receivable due within one year of the reporting date should be reported as temporarily restricted net assets to reflect the donor-imposed time restrictions associated with promises due in the future. Previously, such short-term contributions receivable were reported as unrestricted net assets. To correct this error, Operation Blessing has reclassified \$748,919 of March 31, 2015 net assets from unrestricted net assets to temporarily restricted net assets.

(2) Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at March 31, 2016:

Distribution center equipment	\$	419,973
Disaster relief land, facilities, vehicles, and equipment		4,941,384
Information technology and other equipment		1,217,199
Office equipment		240,453
Leasehold improvements		346,846
		7,165,855
Accumulated depreciation and amortization		(6,014,035)
	\$	1,151,820

**OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2016

(3) Lease Commitments

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

Year ending March 31:	
2017	\$ 1,046,248
2018	927,213
2019	933,585
2020	903,592
2021	451,685
Thereafter	<u>140,800</u>
	<u>\$ 4,403,123</u>

Total rent of facilities and equipment amounted to \$1,649,427 in the year ended March 31, 2016.

(4) Related-Party Transactions

CBN made contributions totaling \$11,153,868 during the year ended March 31, 2016 primarily in support of Operation Blessing's program activities. Due to affiliate of \$50,427 at March 31, 2016 represents a liability for certain cash advances and operating expenses paid by CBN on Operation Blessing's behalf.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2016 consist primarily of unexpended donor restricted funds, disaster relief property and equipment, net, and contributions receivable.

(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 \$5,819,516 for the year ended March 31, 2016.

(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. Subsequent to year-end, CBN replaced its 403(b) plan with a 401(k) plan.