KPMG

OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements

March 31, 2015 and 2014

(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 statements of financial position as of March 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 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 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, 2015 and 2014, 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 26, 2015

OPERATION BLESSING
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Consolidated Statements of Financial Position

March 31, 2015 and 2014

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	5,294,692	6,958,747
Pledges and contributions receivable, net (note 1(d))		905,430	592,606
Prepaid expenses and other		732,765	815,541
Due from affiliate (note 4)		—	109,919
Gifts-in-kind inventories (note 1(e))		94,484,421	34,100,701
Total current assets		101,417,308	42,577,514
Property and equipment, net (note 2)		1,462,705	1,483,876
Other		—	120,946
Total assets	$	102,880,013	44,182,336
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	1,067,334	1,027,729
Due to affiliate (note 4)		21,257	—
Deferred gifts-in-kind revenue (note 1(e))		94,484,421	34,100,701
Total current liabilities		95,573,012	35,128,430
Net assets:			
Unrestricted		4,476,688	4,327,735
Temporarily restricted (note 5)		2,830,313	4,726,171
Total net assets		7,307,001	9,053,906
Commitments (note 3)			
Total liabilities and net assets	$	102,880,013	44,182,336

See accompanying notes to consolidated financial statements.

OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Activities

Years ended March 31, 2015 and 2014

	2015			2014		
	Unrestricted net assets	**Temporarily restricted net assets**	**Total**	**Unrestricted net assets**	**Temporarily restricted net assets**	**Total**
Revenue:						
Contributions (note 4)	$ 16,667,751	3,776,035	20,443,786	16,385,571	6,483,282	22,868,853
Gifts-in-kind (note 1(e))	235,871,880	—	235,871,880	315,750,782	—	315,750,782
Other revenue	35,902	111,286	147,188	52,806	207,305	260,111
Net assets released from restrictions (note 6)	5,783,179	(5,783,179)	—	7,205,147	(7,205,147)	—
Total revenue	258,358,712	(1,895,858)	256,462,854	339,394,306	(514,560)	338,879,746
Expenses:						
Program expenses:						
Hunger Strike Force	6,042,804	—	6,042,804	5,966,446	—	5,966,446
Outreach and humanitarian relief	12,087,768	—	12,087,768	12,698,657	—	12,698,657
Gifts-in-kind (note 1(e))	236,538,614	—	236,538,614	316,423,268	—	316,423,268
Total program expenses	254,669,186	—	254,669,186	335,088,371	—	335,088,371
Supporting services:						
Fundraising	2,151,268	—	2,151,268	2,096,880	—	2,096,880
General and administrative	1,395,116	—	1,395,116	1,416,530	—	1,416,530
Total supporting services	3,546,384	—	3,546,384	3,513,410	—	3,513,410
Total expenses	258,215,570	—	258,215,570	338,601,781	—	338,601,781
Gains and losses:						
Gain on disposal of property and equipment	5,811	—	5,811	7,038	—	7,038
Increase (decrease) in net assets	148,953	(1,895,858)	(1,746,905)	799,563	(514,560)	285,003
Net assets at beginning of year	4,327,735	4,726,171	9,053,906	3,528,172	5,240,731	8,768,903
Net assets at end of year	$ 4,476,688	2,830,313	7,307,001	4,327,735	4,726,171	9,053,906

See accompanying notes to consolidated financial statements.

OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended March 31, 2015 and 2014

		2015	**2014**
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(1,746,905)	285,003
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		568,141	591,456
Gain on disposal of assets		(5,811)	(7,038)
Increase in allowance for pledges receivable		105,042	30,758
Changes in assets and liabilities:			
Pledges and contributions receivable		(417,866)	190,930
Due from affiliate		109,919	11,834
Prepaid expenses and other		203,722	(164,547)
Accounts payable and accrued liabilities		39,605	(25,602)
Due to affiliate		21,257	—
Net cash (used in) provided by operating activities		(1,122,896)	912,794
Cash flows from investing activities:			
Proceeds from sale of property and equipment		8,746	7,038
Purchases of property and equipment		(549,905)	(350,892)
Net cash used in investing activities		(541,159)	(343,854)
(Decrease) increase in cash and cash equivalents		(1,664,055)	568,940
Cash and cash equivalents at beginning of year		6,958,747	6,389,807
Cash and cash equivalents at end of year	$	5,294,692	6,958,747

See accompanying notes to consolidated 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 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, 2015 or 2014.

Revenue is 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 $4,012,642 and $4,011,578 at March 31, 2015 and 2014, respectively, 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) Pledges and Contributions Receivable

Pledges 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. 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, 2015 and 2014 are due within one year.

Operation Blessing has pledges and contributions receivable of $1,117,622 and $699,756 as of March 31, 2015 and 2014, respectively, net of allowance for uncollectible amounts of $212,192 and $107,150, 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. 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 statements 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.

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(h) Noncash Transactions

Gifts-in-kind inventories and deferred gifts-in-kind revenue totaled $94,484,421 and $34,100,701, at March 31, 2015 and 2014, 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 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 statements 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 gifts-in-kind revenue reported in the consolidated statements 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.

(Continued)

(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 June 26, 2015, the date the consolidated 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, 2015 and 2014:

		2015	2014
Distribution center equipment	$	418,563	418,563
Disaster relief land, facilities, vehicles, and equipment		5,021,775	4,691,535
Information technology and other equipment		1,183,610	1,063,207
Office equipment		240,453	242,791
Leasehold improvements		254,959	290,239
		7,119,360	6,706,335
Accumulated depreciation and amortization		(5,656,655)	(5,222,459)
	$	1,462,705	1,483,876

(3) Lease Commitments

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

		Operating leases
Year ending March 31:		
2016	$	1,094,648
2017		1,035,784
2018		547,452
2019		518,715
2020		487,042
Thereafter		29,285
	$	3,712,926

Total rent of facilities and equipment amounted to $1,720,480 and $1,897,732 in fiscal years 2015 and 2014, respectively.

(4) Related-Party Transactions

CBN made contributions totaling $10,530,325 and $11,588,969 during fiscal years 2015 and 2014, respectively, primarily in support of Operation Blessing's program activities. Due to affiliate of $21,257 at March 31, 2015 represents a liability for certain cash advances and operating expenses paid by CBN on Operation Blessing's behalf. Due from affiliate of $109,919 at March 31, 2014 represents contributions from CBN remitted to Operation Blessing subsequent to year-end.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2015 and 2014 consist primarily of unexpended donor restricted funds and disaster relief property and equipment, net.

(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 $5,783,179 and $7,205,147 for the years ended March 31, 2015 and 2014, 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.