OPERATION BLESSING
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements

March 31, 2017 and 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 statements of financial position as of March 31, 2017 and 2016, 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 consolidated 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, 2017 and 2016, 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

July 13, 2017

OPERATION BLESSING
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Consolidated Statements of Financial Position

March 31, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	4,561,979	4,969,866
Contributions receivable, net (note 2)		1,801,154	784,914
Prepaid expenses and other		940,393	847,190
Due from affiliate, net (note 5)		6,290	—
Gifts-in-kind inventories (note 1(e))		111,680,228	35,819,770
Total current assets		118,990,044	42,421,740
Property and equipment, net (note 3)		948,061	1,151,820
Long-term contributions receivable, net (note 2)		625,394	—
Other assets		25,000	25,000
Total assets	$	120,588,499	43,598,560
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	1,266,504	1,093,118
Due to affiliate, net (note 5)		—	50,427
Deferred gifts-in-kind revenue (note 1(e))		111,680,228	35,819,770
Total current liabilities		112,946,732	36,963,315
Net assets:			
Unrestricted		3,523,612	3,668,832
Temporarily restricted (note 6)		4,118,155	2,966,413
Total net assets		7,641,767	6,635,245
Commitments and contingencies (notes 4 and 9)			
Total liabilities and net assets	$	120,588,499	43,598,560

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, 2017 and 2016

	2017			2016		
	Unrestricted net assets	**Temporarily restricted net assets**	**Total**	**Unrestricted net assets**	**Temporarily restricted net assets**	**Total**
Revenue:						
Contributions (note 5)	$ 17,572,680	6,747,934	24,320,614	16,534,009	4,967,222	21,501,231
Gifts-in-kind (note 1(e))	322,127,667	—	322,127,667	286,270,434	—	286,270,434
Other revenue	58,494	95,860	154,354	76,240	239,475	315,715
Net assets released from restrictions (note 7)	5,692,052	(5,692,052)	—	5,819,516	(5,819,516)	—
Total revenue	345,450,893	1,151,742	346,602,635	308,700,199	(612,819)	308,087,380
Expenses:						
Program expenses:						
Hunger Strike Force	5,600,270	—	5,600,270	5,573,077	—	5,573,077
Outreach and humanitarian relief	12,770,753	—	12,770,753	12,146,393	—	12,146,393
Gifts-in-kind (note 1(e))	323,044,233	—	323,044,233	287,143,288	—	287,143,288
Total program expenses	341,415,256	—	341,415,256	304,862,758	—	304,862,758
Supporting services:						
Fundraising	2,788,672	—	2,788,672	2,423,255	—	2,423,255
General and administrative	1,506,585	—	1,506,585	1,463,052	—	1,463,052
Total supporting services	4,295,257	—	4,295,257	3,886,307	—	3,886,307
Total expenses	345,710,513	—	345,710,513	308,749,065	—	308,749,065
Gain (loss) on disposal of property and equipment	114,400	—	114,400	(10,071)	—	(10,071)
Increase (decrease) in net assets	(145,220)	1,151,742	1,006,522	(58,937)	(612,819)	(671,756)
Net assets at beginning of year	3,668,832	2,966,413	6,635,245	3,727,769	3,579,232	7,307,001
Net assets at end of year	$ 3,523,612	4,118,155	7,641,767	3,668,832	2,966,413	6,635,245

See accompanying notes to consolidated financial statements.

OPERATION BLESSING
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Consolidated Statements of Cash Flows

Years ended March 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Increase (decrease) in net assets	$	1,006,522	(671,756)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization		301,455	468,264
(Gain) loss on disposal of assets		(114,400)	10,071
Changes in assets and liabilities:			
Contributions receivable		(1,641,634)	120,516
Prepaid expenses and other		(93,203)	(114,425)
Due from affiliate		(15,806)	34,138
Other assets		—	(25,000)
Accounts payable and accrued liabilities		173,386	25,784
Due to affiliate		(40,911)	(4,968)
Net cash used in operating activities		(424,591)	(157,376)
Cash flows from investing activities:			
Proceeds from sale of property and equipment		114,400	4,895
Purchases of property and equipment		(97,696)	(172,345)
Net cash provided by (used in) investing activities		16,704	(167,450)
Decrease in cash and cash equivalents		(407,887)	(324,826)
Cash and cash equivalents at beginning of year		4,969,866	5,294,692
Cash and cash equivalents at end of year	$	4,561,979	4,969,866

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 in consolidation. 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, 2017 and 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 7). Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are 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 $3,225,788 and $3,715,221 at March 31, 2017 and 2016, 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) 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 Operation Blessing's percent interest in the estimated fair value based on the fair value of the underlying assets.

(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, Net

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.

(h) Noncash Transactions

Gifts-in-kind inventories and deferred gifts-in-kind revenue totaled $111,680,228 and $35,819,770 at March 31, 2017 and 2016, 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. The consolidated financial statements do not include 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) 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.

(l) 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 the 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 13, 2017, the date the consolidated financial statements were available to be issued, and determined that there were no items to disclose.

(2) Contributions Receivable

Operation Blessing has contributions receivable of $2,476,933 and $784,914 as of March 31, 2017 and 2016, respectively. Contributions receivable expected to be received after one year are netted against a present value discount of 3% equal to $50,385 at March 31, 2017. Contributions receivable at March 31, 2017 and 2016 are expected to be received as follows:

		2017	2016
Within one year	$	1,801,154	784,914
One to five years		504,409	—
Thereafter		120,985	—
	$	2,426,548	784,914

(3) Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at March 31, 2017 and 2016:

		2017	2016
Distribution center equipment	$	491,903	419,973
Disaster relief land, facilities, vehicles, and equipment		4,595,132	4,941,384
Information technology and other equipment		1,244,899	1,217,199
Office equipment		248,715	240,453
Leasehold improvements		346,846	346,846
		6,927,495	7,165,855
Accumulated depreciation and amortization		(5,979,434)	(6,014,035)
	$	948,061	1,151,820

(4) Lease Commitments

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

Year ending March 31:		
2018	$	1,058,933
2019		1,079,743
2020		1,060,673
2021		621,274
2022		315,380
Thereafter		14,578
	$	4,150,581

Total rent of facilities and equipment amounted to $1,686,042 and $1,649,427 in the years ended March 31, 2017 and 2016, respectively.

(5) Related-Party Transactions

CBN made contributions totaling $11,891,208 and $11,153,868 during the years ended March 31, 2017 and 2016, respectively, primarily in support of Operation Blessing's program activities. Due from affiliate of $6,290 at March 31, 2017 represents contributions from CBN remitted subsequent to year end. 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.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2017 and 2016 consist primarily of unexpended donor restricted funds, disaster relief property and equipment, net, and contributions receivable.

(7) 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 $5,692,052 and $5,819,516 for the years ended March 31, 2017 and 2016, respectively.

(8) Retirement Plan

Operation Blessing participates in a 401(k) retirement plan administered by CBN. All regular employees are eligible and contributions are fully vested. In fiscal year 2017, CBN replaced its 403(b) plan with a 401(k) plan.

(9) Commitments and Contingencies

Operation Blessing is subject to various legal proceedings and claims, which arise in the ordinary course of its business. Management believes that the outcome of these matters will not have a material adverse effect on Operation Blessing's consolidated statements of financial position or consolidated statements of activities.