



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

Consolidated Financial Statements

March 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 19, 2018

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

Consolidated Statements of Activities

Years ended March 31, 2018 and 2017

	2018			2017		
	Unrestricted net assets	Temporarily restricted net assets	Total	Unrestricted net assets	Temporarily restricted net assets	Total
Revenue:						
Contributions (note 5)	\$ 17,574,619	13,516,932	31,091,551	17,572,680	6,747,934	24,320,614
Gifts-in-kind (note 1(e))	245,597,539	—	245,597,539	322,127,667	—	322,127,667
Other revenue	60,271	55,335	115,606	58,494	95,860	154,354
Net assets released from restrictions (note 7)	8,523,265	(8,523,265)	—	5,692,052	(5,692,052)	—
Total revenue	271,755,694	5,049,002	276,804,696	345,450,893	1,151,742	346,602,635
Expenses:						
Program expenses:						
Hunger Strike Force	5,734,712	—	5,734,712	5,600,270	—	5,600,270
Outreach and humanitarian relief	15,497,113	—	15,497,113	12,770,753	—	12,770,753
Gifts-in-kind (note 1(e))	246,703,541	—	246,703,541	323,044,233	—	323,044,233
Total program expenses	267,935,366	—	267,935,366	341,415,256	—	341,415,256
Supporting services:						
Fundraising	3,360,424	—	3,360,424	2,788,672	—	2,788,672
General and administrative	1,652,422	—	1,652,422	1,506,585	—	1,506,585
Total supporting services	5,012,846	—	5,012,846	4,295,257	—	4,295,257
Total expenses	272,948,212	—	272,948,212	345,710,513	—	345,710,513
Gain on disposal of property and equipment	509	—	509	114,400	—	114,400
Increase (decrease) in net assets	(1,192,009)	5,049,002	3,856,993	(145,220)	1,151,742	1,006,522
Net assets at beginning of year	3,523,612	4,118,155	7,641,767	3,668,832	2,966,413	6,635,245
Net assets at end of year	\$ 2,331,603	9,167,157	11,498,760	3,523,612	4,118,155	7,641,767

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 3,856,993	1,006,522
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	280,231	301,455
Gain on disposal of property and equipment	(509)	(114,400)
Changes in assets and liabilities:		
Contributions receivable	1,122,175	(1,641,634)
Prepaid expenses and other	(439,188)	(93,203)
Due from affiliate	(4,124)	(15,806)
Accounts payable and accrued liabilities	382,719	173,386
Due to affiliate	29,618	(40,911)
Net cash provided by (used in) operating activities	5,227,915	(424,591)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	509	114,400
Purchases of property and equipment	(313,804)	(97,696)
Net cash provided by (used in) investing activities	(313,295)	16,704
Increase (decrease) in cash and cash equivalents	4,914,620	(407,887)
Cash and cash equivalents at beginning of year	4,561,979	4,969,866
Cash and cash equivalents at end of year	\$ 9,476,599	4,561,979

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(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, 2018 and 2017.

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 \$8,579,012 and \$3,225,788 at March 31, 2018 and 2017, 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.

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

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(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 \$19,108,538 and \$111,680,228 at March 31, 2018 and 2017, 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
INTERNATIONAL RELIEF AND DEVELOPMENT CORPORATION
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

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 (GAAP) 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 GAAP 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 19, 2018, the date the consolidated financial statements were available to be issued, and determined that there were no items to disclose.

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

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(2) Contributions Receivable

Operation Blessing has gross contributions receivable of \$1,343,945 and \$2,476,933 as of March 31, 2018 and 2017, respectively. Contributions receivable expected to be received after one year are netted against a present value discount of 3% equal to \$39,572 and \$50,385 at March 31, 2018 and 2017, respectively. Contributions receivable at March 31, 2018 and 2017 are expected to be received as follows:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 993,945	1,801,154
One to five years	228,380	504,409
Thereafter	<u>82,048</u>	<u>120,985</u>
	<u>\$ 1,304,373</u>	<u>2,426,548</u>

(3) Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Distribution center equipment	\$ 515,060	491,903
Disaster relief land, facilities, vehicles, and equipment	4,864,951	4,595,132
Information technology and other equipment	1,246,304	1,244,899
Office equipment	248,715	248,715
Leasehold improvements	<u>364,656</u>	<u>346,846</u>
	7,239,686	6,927,495
Accumulated depreciation and amortization	<u>(6,258,052)</u>	<u>(5,979,434)</u>
	<u>\$ 981,634</u>	<u>948,061</u>

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

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(4) Lease Commitments

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

Year ending March 31:		
2019	\$	1,075,357
2020		1,055,478
2021		628,748
2022		318,196
2023		14,578
Thereafter		—
	\$	<u>3,092,357</u>

Total rent of facilities and equipment amounted to \$1,916,302 and \$1,686,042 in the years ended March 31, 2018 and 2017, respectively.

(5) Related-Party Transactions

CBN made contributions totaling \$17,001,794 and \$11,891,208 during the years ended March 31, 2018 and 2017, respectively, primarily in support of Operation Blessing's program activities. Due to affiliate of \$19,204 at March 31, 2018 represents a liability for certain cash advances and operating expenses paid by CBN on Operation Blessing's behalf. Due from affiliate of \$6,290 at March 31, 2017 represents contributions made by CBN prior to March 31, 2017 and remitted subsequent to year end.

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets at March 31, 2018 and 2017 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 \$8,523,265 and \$5,692,052 for the years ended March 31, 2018 and 2017, 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. Operation Blessing made contributions totaling \$190,629 and \$168,613 for the years ended March 31, 2018 and 2017, respectively. In fiscal year 2017, CBN replaced its 403(b) plan with a 401(k) plan.

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

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(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.