



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

Consolidated Financial Statements

March 31, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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 17, 2019

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Consolidated Statements of Financial Position

March 31, 2019 and 2018

| Assets | 2019 | 2018 |
|--|---------------|-------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 9,725,951 | 9,476,599 |
| Contributions receivable, net (note 3) | 1,330,458 | 993,945 |
| Prepaid expenses and other | 1,076,662 | 1,379,581 |
| Gifts-in-kind inventories (note 1(e)) | 8,523,139 | 19,108,538 |
| Total current assets | 20,656,210 | 30,958,663 |
| Property and equipment, net (note 4) | 956,290 | 981,634 |
| Long-term contributions receivable, net (note 3) | 242,935 | 310,428 |
| Other assets | — | 25,000 |
| Total assets | \$ 21,855,435 | 32,275,725 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,215,051 | 1,649,223 |
| Due to affiliate, net (note 6) | 25,838 | 19,204 |
| Deferred gifts-in-kind revenue (note 1(e)) | 8,523,139 | 19,108,538 |
| Total current liabilities | 9,764,028 | 20,776,965 |
| Net assets: | | |
| Without donor restrictions | 2,188,435 | 2,331,603 |
| With donor restrictions (note 7) | 9,902,972 | 9,167,157 |
| Total net assets | 12,091,407 | 11,498,760 |
| Commitments and contingencies (notes 5 and 11) | | |
| Total liabilities and net assets | \$ 21,855,435 | 32,275,725 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Activities

Years ended March 31, 2019 and 2018

| | 2019 | | | 2018 | | |
|---|--|---|--------------------|--|---|--------------------|
| | Net assets without donor restrictions | Net assets with donor restrictions | Total | Net assets without donor restrictions | Net assets with donor restrictions | Total |
| Revenue: | | | | | | |
| Contributions (note 6) | \$ 15,772,743 | 9,624,486 | 25,397,229 | 17,574,619 | 13,516,932 | 31,091,551 |
| Gifts-in-kind (note 1(e)) | 91,472,776 | — | 91,472,776 | 245,597,539 | — | 245,597,539 |
| Other revenue | 19,440 | 128,735 | 148,175 | 60,271 | 55,335 | 115,606 |
| Net assets released from restrictions (note 8) | 9,017,406 | (9,017,406) | — | 8,523,265 | (8,523,265) | — |
| Total revenue | <u>116,282,365</u> | <u>735,815</u> | <u>117,018,180</u> | <u>271,755,694</u> | <u>5,049,002</u> | <u>276,804,696</u> |
| Expenses: | | | | | | |
| Program expenses: | | | | | | |
| Hunger Strike Force | 6,095,623 | — | 6,095,623 | 5,734,712 | — | 5,734,712 |
| Outreach and humanitarian relief | 13,763,292 | — | 13,763,292 | 15,497,113 | — | 15,497,113 |
| Gifts-in-kind (note 1(e)) | 92,382,918 | — | 92,382,918 | 246,703,541 | — | 246,703,541 |
| Total program expenses | <u>112,241,833</u> | <u>—</u> | <u>112,241,833</u> | <u>267,935,366</u> | <u>—</u> | <u>267,935,366</u> |
| Supporting services: | | | | | | |
| Fundraising | 2,203,786 | — | 2,203,786 | 3,360,424 | — | 3,360,424 |
| General and administrative | 1,972,080 | — | 1,972,080 | 1,652,422 | — | 1,652,422 |
| Total supporting services | <u>4,175,866</u> | <u>—</u> | <u>4,175,866</u> | <u>5,012,846</u> | <u>—</u> | <u>5,012,846</u> |
| Total expenses | <u>116,417,699</u> | <u>—</u> | <u>116,417,699</u> | <u>272,948,212</u> | <u>—</u> | <u>272,948,212</u> |
| Gain (loss) on disposal of property and equipment | (7,834) | — | (7,834) | 509 | — | 509 |
| Increase (decrease) in net assets | (143,168) | 735,815 | 592,647 | (1,192,009) | 5,049,002 | 3,856,993 |
| Net assets at beginning of year | <u>2,331,603</u> | <u>9,167,157</u> | <u>11,498,760</u> | <u>3,523,612</u> | <u>4,118,155</u> | <u>7,641,767</u> |
| Net assets at end of year | <u>\$ 2,188,435</u> | <u>9,902,972</u> | <u>12,091,407</u> | <u>2,331,603</u> | <u>9,167,157</u> | <u>11,498,760</u> |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended March 31, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 592,647 | 3,856,993 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 269,252 | 280,231 |
| (Gain) loss on disposal of property and equipment | 7,834 | (509) |
| Changes in assets and liabilities: | | |
| Contributions receivable | (269,020) | 1,122,175 |
| Prepaid expenses and other | 274,919 | (439,188) |
| Due from affiliate | (50,166) | (4,124) |
| Accounts payable and accrued liabilities | (434,172) | 382,719 |
| Due to affiliate | 56,800 | 29,618 |
| Net cash provided by operating activities | 448,094 | 5,227,915 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 8,556 | 509 |
| Proceeds from sale of assets held for investment | 48,000 | — |
| Purchases of property and equipment | (255,298) | (313,804) |
| Net cash used in investing activities | (198,742) | (313,295) |
| Increase in cash and cash equivalents | 249,352 | 4,914,620 |
| Cash and cash equivalents at beginning of year | 9,476,599 | 4,561,979 |
| Cash and cash equivalents at end of year | \$ 9,725,951 | 9,476,599 |

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

March 31, 2019 and 2018

(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:

Net assets without donor restrictions – Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Donor-imposed restrictions that are temporary in nature will be met by actions pursuant to the stipulations and/or the passage of time. Donor-imposed restrictions that are perpetual in nature neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Operation Blessing. There were no net assets with perpetual donor restrictions at March 31, 2019 and 2018. Investment income and unrealized gains and losses from resources held in perpetuity can be either restricted or unrestricted.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed stipulations. Contributions received and contributions receivable with donor-imposed restrictions are reported as increases to net assets with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions (note 8). 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 \$8,312,704 and \$8,579,012 at March 31, 2019 and 2018, respectively, and are valued based on

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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 Allocation of Expenses

Operation Blessing allocates its expenses on a functional basis among its various programs and supporting services. Expenses, including depreciation and amortization, that can be identified with a specific program or supporting service are allocated directly. Property and liability insurance is allocated based on the estimated risk of loss. Personnel costs related to worker's compensation and life and disability insurances, and medical claims expenses are allocated based on employee headcount.

(h) Noncash Transactions

Gifts-in-kind inventories and deferred gifts-in-kind revenue totaled \$8,523,139 and \$19,108,538 at March 31, 2019 and 2018, respectively.

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(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 (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) New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Operation Blessing implemented ASU 2016-14 and applied it retrospectively to all periods presented.

(m) 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 17, 2019, the date the

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consolidated financial statements were available to be issued, and determined that there were no items to disclose.

(2) Liquidity and Availability

The following represents Operation Blessing's financial assets at March 31, 2019 and 2018:

| Financial assets at year end: | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-------------------------|
| Cash and cash equivalents | \$ 9,725,951 | 9,476,599 |
| Contributions receivable | 1,573,393 | 1,304,373 |
| Other | <u>18,216</u> | <u>22,488</u> |
| Total financial assets | 11,317,560 | 10,803,460 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | 9,902,972 | 9,167,157 |
| Less net assets with time and purpose restrictions to be met in less than one year | <u>(8,856,945)</u> | <u>(8,090,758)</u> |
| | <u>1,046,027</u> | <u>1,076,399</u> |
| Financial assets available to meet general expenditures over the next twelve months | \$ <u><u>10,271,533</u></u> | <u><u>9,727,061</u></u> |

Operation Blessing regularly monitors liquidity and maintains liquidity reserves required to meet its operational needs. In addition to financial assets available to meet general expenditures over the next year, it operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

(3) Contributions Receivable, Net

Operation Blessing has contributions receivable of \$1,630,458 and \$1,343,945 as of March 31, 2019 and 2018, respectively. Contributions receivable expected to be received after one year are netted against a present value discount of 6% equal to \$57,065 and 3% equal to \$39,572 at March 31, 2019 and 2018, respectively. Contributions receivable at March 31, 2019 and 2018 are expected to be received as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------|----------------------------|-------------------------|
| Within one year | \$ 1,330,458 | 993,945 |
| One to five years | 208,442 | 228,380 |
| Thereafter | <u>34,493</u> | <u>82,048</u> |
| | \$ <u><u>1,573,393</u></u> | <u><u>1,304,373</u></u> |

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(4) Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at March 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|--------------------|
| Distribution center equipment | \$ 518,983 | 515,060 |
| Disaster relief land, facilities, vehicles, and equipment | 5,071,820 | 4,864,951 |
| Information technology and other equipment | 1,156,036 | 1,246,304 |
| Office equipment | 248,715 | 248,715 |
| Leasehold improvements | <u>372,606</u> | <u>364,656</u> |
| | 7,368,160 | 7,239,686 |
| Accumulated depreciation and amortization | <u>(6,411,870)</u> | <u>(6,258,052)</u> |
| | <u>\$ 956,290</u> | <u>981,634</u> |

(5) Lease Commitments

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

| | |
|-----------------------|---------------------|
| Year ending March 31: | |
| 2020 | \$ 1,182,241 |
| 2021 | 762,350 |
| 2022 | 449,919 |
| 2023 | 147,355 |
| 2024 | 33,438 |
| Thereafter | <u>—</u> |
| | <u>\$ 2,575,303</u> |

Total rent of facilities and equipment amounted to \$2,125,738 and \$1,916,302 in the years ended March 31, 2019 and 2018, respectively.

(6) Related-Party Transactions

CBN made contributions totaling \$12,036,312 and \$17,001,794 during the years ended March 31, 2019 and 2018, respectively, primarily in support of Operation Blessing's program activities. Due to affiliate, net of \$25,838 and \$19,204 at March 31, 2018 and 2019, respectively, represents a liability for certain cash advances and operating expenses paid by CBN on Operation Blessing's behalf.

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(7) Net Assets with Donor Restrictions

Net assets with donor restrictions at March 31, 2019 and 2018 consist primarily of unexpended donor restricted funds, disaster relief property and equipment, net, and contributions receivable.

(8) 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 \$9,017,406 and \$8,523,265 for the years ended March 31, 2019 and 2018, respectively.

(9) Schedule of Functional Expenses

The schedule of functional expenses for the year ended March 31, 2019 is as follows:

| | <u>Program</u> | <u>Fundraising</u> | <u>General and Administrative</u> | <u>Total</u> |
|---|-----------------------|--------------------|---------------------------------------|--------------------|
| Employment expenses | \$ 7,177,280 | 1,148,861 | 945,155 | 9,271,296 |
| Gifts-in-kind | 91,650,674 | — | — | 91,650,674 |
| Contributions | 2,779,928 | — | — | 2,779,928 |
| Purchased product | 2,220,844 | — | — | 2,220,844 |
| Transportation costs | 2,081,647 | — | — | 2,081,647 |
| Professional fees | 1,254,911 | 303,057 | 487,013 | 2,044,981 |
| Rent and utilities | 1,814,901 | 13,600 | 176,221 | 2,004,722 |
| Travel | 1,301,004 | 97,078 | 23,102 | 1,421,184 |
| Taxes and insurance | 585,481 | 9,427 | 191,825 | 786,733 |
| Promotional expenses | 113,516 | 586,662 | 3,835 | 704,013 |
| Equipment and maintenance | 540,423 | 2,049 | 5,718 | 548,190 |
| Depreciation, amortization and other | 721,224 | 43,052 | 139,211 | 903,487 |
| | <u>\$ 112,241,833</u> | <u>2,203,786</u> | <u>1,972,080</u> | <u>116,417,699</u> |

(10) 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 \$164,724 and \$190,629 for the years ended March 31, 2019 and 2018, respectively.

(11) 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.