DIRECT RELIEF INTERNATIONAL,
DIRECT RELIEF FOUNDATION AND
DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)

COMBINED AND CONSOLIDATED
FINANCIAL STATEMENTS

JUNE 30, 2010

DIRECT RELIEF INTERNATIONAL,
DIRECT RELIEF FOUNDATION AND
DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)

June 30, 2010

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McGowan Guntermann
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Direct Relief International, Direct Relief Foundation
and Direct Relief International (South Africa)
Santa Barbara, California

We have audited the accompanying combined and consolidated statement of financial position of Direct Relief International, Direct Relief Foundation and Direct Relief International (South Africa) (non-profit corporations) as of June 30, 2010, and the related combined and consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these 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 of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Due to the cost versus benefit of preparing the fair value level disclosures as required by the fair value measurements and disclosures topic of Accounting Standards Update 820, the Organization has omitted these expanded disclosures in notes 3 and 4 to the financial statements. It was not practicable to determine the effects of not presenting the disclosures on the financial statements.

In our opinion, except for the effects of not presenting the fair value disclosures as discussed in the preceding paragraph, the combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International, Direct Relief Foundation, and Direct Relief International (South Africa) as of June 30, 2010, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position, activities and changes in net assets, functional expenses, and cash flows of Direct Relief International on pages 18 - 20 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

SIGNATURE REDACTED

October 22, 2010

DIRECT RELIEF INTERNATIONAL, DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2009)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	(Memo) Total 2009
Assets					
Current assets:					
Cash and cash equivalents	$ 1,028	$ 6,281	$ -	$ 7,309	$ 8,606
Investments	25,933	-	25	25,958	22,899
Contributions and other receivables	75	-	-	75	185
Inventories	111,110	-	-	111,110	43,947
Prepaid expenses	174	-	-	174	164
Total current assets	138,320	6,281	25	144,626	75,801
Property and equipment - net of accumulated depreciation of $2,113,484	6,368	-	-	6,368	5,872
Bequest receivable	677	-	-	677	268
Other assets	-	-	-	-	3
Total assets	$ 145,365	$ 6,281	$ 25	$ 151,671	$ 81,944
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Accounts payable	$ 681	$ -	$ -	$ 681	$ 355
Current portion of capital lease	3	-	-	3	5
Other current liabilities	628	-	-	628	514
Total current liabilities	1,312	-	-	1,312	874
Long-term debt	1,400	-	-	1,400	1,400
Capital lease obligation	-	-	-	-	3
Distribution payable - split interest agreements	-	7	-	7	8
Total liabilities	2,712	7	-	2,719	2,285
Net assets:					
Unrestricted net assets:					
Board designated reserve fund	29,082	-	-	29,082	30,235
Undesignated	113,571	-	-	113,571	47,163
Total unrestricted net assets	142,653	-	-	142,653	77,398
Temporarily restricted assets	-	6,274	-	6,274	2,236
Permanently restricted assets	-	-	25	25	25
Total net assets	142,653	6,274	25	148,952	79,659
Total liabilities and net assets	$ 145,365	$ 6,281	$ 25	$ 151,671	$ 81,944

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	(Memo) Total 2009
Public support:					
In cash and securities:					
Contributions	$ 4,215	$ 7,388	$ -	$ 11,603	$ 5,956
Business and foundation grants	478	2,307	-	2,785	1,867
Workplace giving campaigns	550	-	-	550	281
Special events	-	-	-	-	60
Total public support from cash and securities	5,243	9,695	-	14,938	8,164
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	323,314	-	-	323,314	156,833
Contributed freight	1,162	136	-	1,298	750
Contributed goods - other	93	9	-	102	25
Professional services received	1,246	-	-	1,246	262
Total from donated goods and services	325,815	145	-	325,960	157,870
Total public support	331,058	9,840	-	340,898	166,034
Revenue:					
Investment income	509	5	-	514	578
Gain (loss) on sale of investments	736	-	-	736	(6,632)
Change in value - split interest agreements	-	13	-	13	63
Unrealized gain (loss) on investments	653	-	-	653	(4,273)
Program service fees	-	186	-	186	2
Other income	(3)	-	-	(3)	0
Total revenue	1,895	204	-	2,099	(10,262)
Net assets released from restrictions:	6,006	(6,006)	-	-	-
Total public support and revenue	338,959	4,038	-	342,997	155,772
Expenses:					
Program services:					
Medical supplies and related expenses	269,971	-	-	269,971	170,832
Supporting services:					
Administration	2,173	-	-	2,173	2,225
Fundraising	1,560	-	-	1,560	987
Total supporting services	3,733	-	-	3,733	3,212
Total expenses	273,704	-	-	273,704	174,044
Change in net assets	65,255	4,038	-	69,293	(18,272)
Net asset balance beginning of year	77,398	2,236	25	79,659	97,931
Net asset balance end of year	$ 142,653	$ 6,274	$ 25	$ 148,952	$ 79,659

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

(in thousands)

	Program Services			Total	Supporting Services			(Memo)
	USA	International	Haiti Earthquake	Program Services	Administration	Fundraising	Total 2010	Total 2009
Compensation and related benefits:								
Salaries	$ 746	$ 1,583	$ 95	$ 2,424	$ 894	$ 602	$ 3,920	$ 3,369
Payroll taxes	52	105	7	164	57	39	260	231
Employee benefits	97	193	13	303	130	72	505	395
Total compensation and related benefits	895	1,881	115	2,891	1,081	713	4,685	3,995
Other expenses:								
Pharmaceuticals, medical equipment and supplies distributed - donated	52,366	140,678	50,363	243,407	-	-	243,407	147,222
Pharmaceuticals, medical equipment and supplies distributed - procured	587	508	141	1,236	-	-	1,236	671
Inventory adjustment (expired pharmaceuticals)	2,764	10,006	-	12,770	-	-	12,770	13,480
Accounting and legal fees	1	9	-	10	82	1	93	90
Advertising	1	-	-	1	1	5	7	19
Bank charges	-	1	-	1	60	-	61	35
Contract services	224	692	185	1,101	278	108	1,487	1,270
Contributed services	79	520	-	599	298	349	1,246	262
Contributed freight	251	910	136	1,298	-	-	1,298	750
Contributed goods	20	52	1	73	16	14	103	25
Disposal costs (expired pharmaceuticals)	8	43	-	51	-	-	51	16
Dues and subscriptions	11	38	-	49	17	3	69	60
Duplicating and printing	1	-	-	1	61	38	100	126
Equipment and software maintenance	22	25	2	49	16	33	97	97
Equipment rental	1	2	19	22	1	2	25	14
Freight and transportation	364	1,193	370	1,928	-	-	1,928	1,746
Grants and stipends	50	1,511	668	2,229	-	-	2,229	2,018
Insurance	10	33	1	44	10	1	55	59
Interest	18	57	2	77	8	2	87	86
Meetings, conferences, special events	15	21	2	38	14	62	114	99
Outside computer services	3	6	-	9	2	50	61	31
Postage and mailing services	1	5	-	6	22	36	64	88
Rent and other occupancy	113	430	164	707	9	2	719	418
Supplies	102	143	8	253	23	24	300	194
Taxes, licenses and fees	12	6	1	18	5	-	23	43
Training and education	-	1	-	1	1	1	3	23
Travel and automobile	40	262	62	364	22	10	396	280
Utilities and telephone	27	125	7	159	16	6	181	135
Web hosting	55	119	4	178	44	33	254	168
Total expenses before depreciation	58,041	159,277	52,250	269,567	2,085	1,496	273,148	173,520
Depreciation and amortization	120	274	9	404	88	64	556	524
Total functional expenses - June 30, 2010	$ 58,161	$ 159,551	$ 52,259	$ 269,971	$ 2,173	$ 1,560	$ 273,704	
Total functional expenses - June 30, 2009	$ 32,696	$ 138,136	$ -	$ 170,832	$ 2,225	$ 987		$ 174,044

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL, DIRECT RELIEF FOUNDATION AND DIRECT RELIEF INTERNATIONAL (SOUTH AFRICA)
(NON-PROFIT CORPORATIONS)

COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2010

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

(in thousands)

	2010	(Memo) 2009
Cash flows from operating activities:		
Cash collected from public support	$ 14,810	$ 7,681
Cash paid for goods and services	(13,911)	(10,994)
Dividend and interest income	514	578
Net cash provided (used) by operating activities	1,413	(2,735)
Cash flows from investing activities:		
Purchase of investments	(21,227)	(25,554)
Proceeds from sale of investments	19,576	34,758
Purchase of capital assets	(1,055)	(1,125)
Unitrust distribution	(2)	(11)
Net cash provided (used) for investing activities	(2,707)	8,068
Cash flows from financing activities:		
Payments on capital lease obligation	(3)	(4)
Net cash provided (used) for financing activities	(3)	(4)
Net increase (decrease) in cash and cash equivalents	(1,297)	5,329
Cash and cash equivalents - beginning of year	8,606	3,277
Cash and cash equivalents - end of year	$ 7,309	$ 8,606
Reconciliation of changes in net assets to net cash provided (used) by operating activities:		
Change in net assets	$ 69,293	$ (18,272)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	556	524
Change in inventory	(67,163)	3,802
Change in receivables	(311)	(485)
Change in prepaid expenses and other assets	(8)	(710)
Change in accounts payable and accrued expenses	438	1,502
Loss on fixed assets disposed of	(1)	-
Loss on other assets disposed of	(3)	
Realized gain on sale of investments	(736)	6,632
Unrealized gain on investments	(652)	4,273
Net cash provided (used) by operating activities	$ 1,413	$ (2,735)

The accompanying notes are an integral part of these financial statements.

Note 1: Organization

Direct Relief International (DRI) is a California non-profit public benefit corporation founded in 1948 whose mission is to improve the health and lives of people affected by poverty, disaster, and civil unrest.

DRI's program services consist of providing essential pharmaceuticals, medical supplies and medical equipment to support health services in medically underserved communities on an ongoing humanitarian basis and in response to emergency situations and disasters around the world. In the United States, DRI's activities focus on the delivery of donated medicines and supplies to uninsured patients through the support of nonprofit clinics and health centers treating low-income patients. In Santa Barbara and surrounding communities, DRI conducts programs dedicated to improving the oral health of children from low-income families and enhancing disaster preparedness efforts. Under agreements with local emergency response authorities, DRI's medical inventories are available on an as-needed basis in the event of a health emergency.

DRI's financial support is derived through contributions from individuals, corporations and foundations. The medical material resources provided as part of DRI's assistance program are either purchased or received by donation from pharmaceutical and medical supplies manufacturers, wholesalers, and other organizations involved in the health care industry.

The Direct Relief Foundation (Foundation) was formed and incorporated in the state of California as a supporting organization of DRI in October 2006. The Foundation is organized to operate solely and exclusively to support, benefit, or to carry out the purposes of DRI. Except to an insubstantial degree, the Foundation does not carry on or engage in any activities or exercise any powers that are not in furtherance of the purposes of DRI. The Foundation began operations on April 1, 2007. The Foundation's financial statements are combined with DRI's financial statements.

Direct Relief International (South Africa), (DRI-SA) is a wholly owned subsidiary of DRI and commenced operations in the Republic of South Africa on July 1, 2009. DRI-SA was registered in South Africa as a public benefit corporation in October 2007 but remained dormant until this fiscal year. DRI-SA's financial statements are consolidated with DRI's financial statements.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The combined and consolidated financial statements include the accounts of DRI, DRI-SA and the Foundation. All significant balances and transactions among the entities have been eliminated in the accompanying combined and consolidated financial statements. The combined and consolidated financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America. To present comparative financial statements, the Organization has included summarized comparative information for the twelve-month period ending on June 30, 2009.

The Organization has also included separate financial statements for DRI as a supplement to the combined and consolidated statements.

Revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> *Unrestricted net assets* — Net assets that are not subject to any donor-imposed restrictions.
>
> *Temporarily restricted net assets* — Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.
>
> *Permanently restricted net assets* — Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Actual results could differ from management's estimates.

Cash Equivalents

The Organization considers all highly-liquid investments purchased with an average maturity of three months or less to be cash equivalents. Cash equivalents, consisting of money market mutual funds and checking account balances, were valued at $7.3 million as of June 30, 2010.

Investments

Effective April 1, 2007, DRI transferred its separately managed investment fund to the Foundation. This fund is professionally managed under guidelines approved by the Board of Directors, with income and principal being drawn, if necessary, to meet current expenses to the extent approved by the Board. Investments are reported at fair market values provided by the fund managers or general partners.

Valuation of Future Interests

The Organization serves as trustee of a unitrust, of which it is the charitable beneficiary. The Organization is also the beneficiary of several charitable remainder trusts. The future interests in the unitrust and charitable remainder trusts are recorded as assets and valued at fair value on the date of each gift. Investments in the trust are adjusted to fair value at the end of each year. The present value of the total estimated future distributions to the donors on the date of each gift is recorded as a liability. The present value of the Organization's interest in each of the charitable remainder trusts is also adjusted on an annual basis.

Inventories

Purchased inventory is carried at average cost. Donated inventory is carried at average estimated wholesale value as of the date of receipt. Inventory balances as of June 30, 2010, were composed of the following (in thousands):

Pharmaceuticals	$ 100,555
Medical supplies/kits	9,066
Equipment	1,489
Total inventories	$ 111,110

Property and Equipment

Property and equipment purchased are recorded at cost. Donated assets are capitalized at the estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Class of property	Estimated useful life
Buildings	40
Building improvements	20
Equipment and software	3-10

Revenue Recognition

Contributions, which include unconditional promises to give (pledges), are recognized as revenue in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor-imposed restrictions as to their use. When the restriction expires (the time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated that such restrictions will be met in the current reporting year.

Contributed Materials

Contributions of United States FDA-approved pharmaceuticals are recorded on the date received, at the Wholesale Acquisition Cost (WAC) as published by Thomson Reuters in the Red Book. The Red Book is an industry recognized drug and pricing reference guide for pharmaceuticals in the United States. For products not available in the Red Book, the wholesale value is determined using publicly available pricing sources, including the prices published online by leading reputable pharmaceutical distributors. Contributions of medical equipment and supplies are recorded also at estimated wholesale value based upon appropriate wholesale price guides or other online pricing sources as applicable.

Contributed Services

Donated or contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. Donated shipping is valued at the Organization’s discounted percentage of full published rates in effect at the time of shipment. The value of donated services and shipping is also recorded as an equivalent expense in the same period in which the services are received.

Joint Costs

During the year the Organization incurred joint costs of $115 thousand for informational materials that included fundraising appeals. The Organization allocated $86 thousand to administration expense and $29 thousand to fund raising expense.

Note 3: Investments

The Organization follows generally accepted accounting principles (GAAP) in the United States and records investments at fair market value in the statements of financial position. As of June 30, 2010, all the investments were held by the Foundation. Investment holdings as of June 30, 2010, are composed of the following (in thousands):

	2010	
	Cost	Fair Value
Equity securities	$ 7,668	$ 6,818
Fixed income securities	5,994	5,799
Commodities	1,108	805
Alternative investments	14,649	12,536
Total investments	$ 29,419	$ 25,958

The following summarizes the net change in unrealized loss on investments (in thousands):

	Cost	Fair Value	Deficit of Fair Value Over Cost
Balance at end of the year	$ 29,419	$ 25,958	$ (3,461)
Balance at the beginning of the year	27,013	22,899	(4,114)
Net change in unrealized loss on Investments			$ 653

The Organization had investment expenses of $60 thousand during the twelve months ended June 30, 2010.

Note 4: Fair Value Measurements

GAAP establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets accessible at the measurement date

Level 2 Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active

Level 3 Inputs that are unobservable

Inputs broadly refer to the assumptions that are used to make valuation decisions, including assumptions about risk. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in aggregate that is significant to the fair value measurement. Observable inputs include market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Organization's investments are primarily managed by Commonfund, a leading investment firm in line with investment guidelines approved by the Board of Directors. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices.

Fair market valuation of the investments is based on information provided by Commonfund and its fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted.

The following is a description of the different valuation methodologies used for assets measured at fair value within the categories listed below.

Equity securities listed on a national securities exchange are valued at the last sale price on the date of valuation unless the security is not freely tradeable due to a contractual restriction, in which case a discount to the market price is allowed. Unlisted securities are valued at the current bid prices obtained from brokers the Investment Manager deems to be reputable. Securities for which a third-party pricing sources is not available are priced on a "fair value" basis, subject to review and approval by its Fair Value Committee.

Fixed income and debt securities are generally valued by reference to outside pricing services. The pricing services generally utilize a matrix system incorporating security quality, maturity and coupon as the valuation model parameters, supplemental research and evaluation, including review of broker-dealer market price quotations. Certain fixed income securities are valued at closing market prices supplied by brokers considered by the Investment Manager to be active in the market. Certain investments may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments maturing within 60 days are valued at amortized cost, which approximates market value.

Short sales are generally valued at the last close price. If the last close price is not available, the ask price is used.

Purchased options are generally valued at the last sale price. If the last sale price is not available, the current bid price is used. Written options are generally valued at the last trade price. If the last trade price is not available, the ask price is used.

Private securities are generally valued according to the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third- party transactions, comparable public market valuations and/or the income approach. An investment can be carried at cost if little has changed since the initial investment in the company. If necessary, Commonfund adjusts manager valuations to conform with GAAP. For example, if a manager issues tax based financial statements the valuations are adjusted to reflect fair value.

Financial Accounting Standards Board Accounting Standards Update, issued in September 2009, reduced uncertainty in fair valuation of private fund investments. This permitted the use of reported Net Asset Values (NAV) to establish fair value for these investments if they may be redeemed at the reported NAV. Provided the necessary redemption terms exist, these investments are classified as level 2 under Accounting Standards Codification 820. Funds that are restricted from redemption are classified as Level 3.

Fair values of assets measured on a recurring basis at June 30, 2010, are as follows (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 6,818	$ 6,115	$ 679	$ 24
Fixed income securities	5,799	187	4,796	816
Commodities	805	389	409	7
Alternative investments	12,536	440	7,810	4,286
Receivables	752	-	-	752
Total	$ 26,710	$ 7,131	$ 13,694	$ 5,885

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Equity securities	Fixed income securities	Commodities	Alternative investments	Receivables	Total
July 1, 2009	$ 527	$ 809	$ 145	$ 8,161	$ 453	$ 10,095
Total gains and losses (realized/unrealized)	74	77	11	(173)	13	2
Purchases, redemptions, fees and settlements	(84)	(126)	2	3,326	284	3,402
Transfers in and/or out of level 3	(493)	56	(151)	(7,028)	2	(7,614)
June 30, 2010	$ 24	$ 816	$ 7	$ 4,286	$ 752	$ 5,885

Note 5: Property and Equipment

The Organization's investment in property and equipment as of June 30, 2010, consisted of the following (in thousands):

Land	$ 1,364
Office and warehouse	3,264
Vehicles, equipment and software	3,853
Total	8,481
Less: Accumulated Depreciation	(2,113)
Net Property and Equipment	$ 6,368

Note 6: Debt

The Organization's debt as of June 30, 2010, consists of a mortgage note payable, requiring monthly interest only payments of $7,047 at 6.04% per annum through November 20, 2012. Principal and interest payments commence on December 20, 2012, and the loan matures on November 20, 2017. The mortgage notes are secured by the Organization's warehouse facility.

As of June 30, 2010, the Organization had future minimum payments as follows for the years ending June 30 (in thousands):

2011	$ -
2012	-
2013	166
2014	285
2015	285
Thereafter	664
Total	$ 1,400

Note 7: Net Assets

Unrestricted net assets consisted of the following at June 30, 2010 (in thousands):

Designated by the Board of Directors for:	
Operating reserves	$ 29,082
Undesignated	113,571
Total unrestricted net assets	$142,653

Temporarily restricted net assets are available for the following purposes at June 30, 2010 (in thousands):

Haiti earthquake relief	$ 4,541
Chile earthquake relief	167
Program–specific grants	1,160
Country–specific assistance	121
Other activities	285
Total temporarily restricted net assets	$ 6,274

Permanently restricted net assets consists of an endowed contribution of $25 thousand, the income from which is available to fund general operations.

Note 8: Endowment Funds

The Organization's endowment consists of two individual funds; (1) the Donor Restricted Endowment Fund and (2) the Board Restricted Investment Fund ("BRIF"). The Donor Restricted Endowment Fund includes "Permanently" restricted funds which have been so designated and restricted by the donor. As required by GAAP, net assets associated with endowment funds, including Board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The purpose of the BRIF is to provide a reserve for future operations. The BRIF's resources come from board-designated unrestricted bequests and gifts, return on the Fund's portfolio assets and operating surpluses (measured annually) in excess of current operational needs. Effective April 1, 2007, the assets in the BRIF were all transferred to the Foundation.

Fiscal year ended June 30, 2010 endowment net asset composition by type of fund is (in thousands):

	Unrestricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 25	$ 25
Board-restricted (BRIF)	29,082	-	29,082
Total endowment funds	$ 29,082	$ 25	$ 29,107

Changes in the endowment net assets for the year ended June 30, 2010 (in thousands) are:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 31,549	$ 25	$ 31,574
Net investment return (investment income, realized and unrealized gains and losses)	1,899	-	1,899
Contributions	589		589
Appropriation of endowment assets for expenditure	(4,955)	-	(4,955)
Endowment net assets, end of year	$ 29,082	$ 25	$ 29,107

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for the endowment assets that attempt to provide a predictable stream of funding to the Organization while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that currently is equally balanced between equity and fixed income investments to achieve its short term spending needs as well the long-term objectives, within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year an amount up to five percent of the assets of the BRIF. In some instances, the Board may decide to appropriate an amount greater than its stated policy if it is specifically deemed prudent to do so. The BRIF is authorized to distribute its portfolio assets to pay for all fundraising and administration expenses, including extraordinary capital expenses and advance emergency disaster relief funding as determined by the President & CEO. Upon a majority vote by the Board, the BRIF may also be utilized to meet other general operational costs. For the twelve months ended June 30, 2010, $2.814 million was distributed to cover all fundraising and administration costs.

Note 9: Pension Expense

The Organization established the Direct Relief International 401(k) Plan (the Plan) on January 1, 2004. Employees of the Organization are eligible to participate upon hire and are vested 100 percent in all contributions to the Plan. The Organization matches every dollar contributed, up to five (5) percent of the employee’s annual compensation, subject to Board approval.

The Organization’s contributions to the Plan amounted to $143 thousand for the twelve months ended June 30, 2010.

Note 10: Non-Qualified Deferred Compensation Agreement

The Organization is party to a non-qualified deferred compensation agreement with the surviving spouse of a co-founder of the Organization. Under the terms of the agreement, beginning January 1, 1971, the Organization is obligated to make monthly payments in acknowledgement of his 23 years of service. The retirement agreement expense for the twelve months ended June 30, 2010, was $10 thousand.

Note 11: Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of bank and brokerage deposits. The Organization places its temporary cash investments with financial institutions and brokerages. For the twelve months ended June 30, 2010, the Organization was at risk for $4.0 million in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to $250 thousand. In addition, the Organization’s investments are exposed to various risks, such as interest rate fluctuations and market valuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the Organization’s statement of financial position and the statement of activities.

Note 12: Concentrations of Income Risk

The Organization received 28% of its current year cash contributions from ten single donors and 80% of its current year in-kind contributions from ten corporate donors.

Note 13: Leases

The Organization is leasing 23,043 square feet of storage space located at 30 S. La Patera Lane. The terms of this agreement end on December 31, 2012. Payments for rent and common area expenses for the twelve months ended June 30, 2010, totaled $330 thousand.

As of June 30, 2010, the Organization had future minimum payments for the storage space lease and common area expenses as follows for the years ending June 30 (in thousands):

2011	$	340
2012		350
2013		180
Total	$	870

The Organization is also leasing three photocopiers used in operations. Leased property having elements of ownership are recorded as capital leases in the Statement of Financial Position. The related obligations, in amounts equal to the present value of the minimum lease payments payable during the remaining term of the lease, are recorded in the long-term debt account group. Total payments on such leases for the twelve months ending June 30, 2010, were $3 thousand.

The cost of assets under capital leases totaled $21 thousand and accumulated depreciation of these assets was $18 thousand as of June 30, 2010. Depreciation expense was $4 thousand for the twelve months ending June 30, 2010. Amortization of assets held under capital lease is included with depreciation expense.

As of June 30, 2010, the Organization had future minimum payments under capital leases $3 thousand in the last year.

Note 14: Income Taxes

The Organization is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701(d), therefore no amounts for income taxes are reflected in the accompanying financial statements. The Organization is not a private foundation for income tax purposes. Management is not aware of any transactions that would affect the the Organization’s tax-exempt status.

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2010, the Organization had no uncertain tax positions requiring accrual.

The Organization files tax returns in California and U.S. federal jurisdictions. The Organization is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2006.

Note 15: Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 28, 2010, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2010

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Assets			
Current assets:				
Cash and cash equivalents	$ 1	$ 4,832	$ -	$ 4,832
Investments	4	-	-	4
Contributions and other receivables	74	-	-	74
Inventories	111,110	-	-	111,110
Prepaid expenses	174	-	-	174
Total current assets	111,363	4,832	-	116,195
Property and equipment - net of accumulated depreciation of $2,113,484	6,368	-	-	6,368
Investment in South Africa subsidiary	118	-	-	118
Total assets	$ 117,849	$ 4,832	$ -	$ 122,681
	Liabilities and Net Assets			
Liabilities:				
Current liabilities:				
Accounts payable	$ 676	$ -	$ -	$ 676
Current portion of capital lease	3	-	-	3
Other current liabilities	628	-	-	628
Total current liabilities	1,307			1,307
Long-term debt	1,400	-	-	1,400
Capital lease obligation	-	-	-	-
Distribution payable - split interest agreements	-	6	-	6
Total liabilities	2,707	6	-	2,714
Net assets:				
Unrestricted net assets:				
Undesignated	115,142	-	-	115,142
Total unrestricted net assets	115,142	-	-	115,142
Temporarily restricted assets	-	4,826	-	4,826
Total net assets	115,142	4,826	-	119,968
Total liabilities and net assets	$ 117,849	$ 4,832	$ -	$ 122,680

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
In cash and securities				
Contributions	$ 4,215	$ 7,389	$ -	$ 11,604
Business and foundation grants	478	2,307	-	2,785
Workplace giving campaigns	550	-	-	550
Total public support from cash and securities	5,243	9,696	-	14,939
From donated goods and services				
Pharmaceuticals, medical supplies and equipment	323,314	-	-	323,314
Contributed freight	1,162	136	-	1,298
Contributed goods - other	93	9	-	102
Professional services received	1,246	-	-	1,246
Total from donated goods and services	325,815	145	-	325,959
Total public support	331,058	9,841	-	340,898
Revenue:				
Investment income	(1)	5	-	4
Program service fees	-	186	-	186
Other income	(3)	-	-	(3)
Total revenue	(4)	191	-	187
Net assets released from restrictions	6,006	(6,006)	-	-
Total public support and revenue	337,060	4,026	-	341,085
Expenses:				
Program services:				
Medical supplies and related expenses	269,855	-	-	269,855
Supporting services:				
Administration	2,114	-	-	2,114
Fundraising	1,556	-	-	1,556
Total supporting services	3,670	-	-	3,670
Total expenses	273,525	-	-	273,525
Change in net assets	$ 63,535	$ 4,026	$ -	$ 67,560

The accompanying notes are an integral part of these financial statements.

DIRECT RELIEF INTERNATIONAL
(NON-PROFIT CORPORATION)

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

(in thousands)

	Program Services			Total Program Services	Supporting Services		
	USA	International	Haiti Earthquake		Administration	Fundraising	Total
Compensation and related benefits:							
Salaries	$ 745	$ 1,512	$ 95	$ 2,351	$ 894	$ 602	$ 3,847
Payroll taxes	52	105	7	164	57	39	260
Employee benefits	98	193	13	304	130	72	506
Total compensation and related benefits	895	1,809	115	2,819	1,081	713	4,613
Other expenses:							
Pharmaceuticals, medical equipment and supplies distributed - donated	52,365	140,678	50,364	243,407	-	-	243,407
Pharmaceuticals, medical equipment and supplies distributed - procured	587	508	141	1,236	-	-	1,236
Inventory adjustment (expired pharmaceuticals)	2,764	10,006	-	12,770	-	-	12,770
Accounting and legal fees	1	3	-	4	80	1	85
Advertising	1	-	-	1	1	5	7
Bank charges	-	-	-	-	60	-	60
Contract services	224	685	185	1,094	219	108	1,421
Contributed services	79	520	-	599	298	349	1,246
Contributed freight	252	910	136	1,298	-	-	1,298
Contributed goods	20	52	1	73	16	14	103
Disposal costs (expired pharmaceuticals)	8	43	-	51	-	-	51
Dues and subscriptions	11	38	-	49	17	3	69
Duplicating and printing	1	-	-	1	61	38	100
Equipment and software maintenance	22	25	2	49	16	33	98
Equipment rental	1	2	19	22	1	2	25
Freight and transportation	364	1,194	370	1,928	-	-	1,928
Grants and stipends	50	1,512	669	2,231	-	-	2,231
Insurance	10	34	1	45	10	1	56
Interest	18	56	2	76	7	2	85
Meetings, conferences, special events	14	21	2	37	14	62	113
Outside computer services	3	5	-	8	2	50	60
Postage and mailing services	1	5	-	6	22	36	64
Rent and other occupancy	113	430	164	707	9	2	718
Supplies	102	138	8	248	23	24	294
Taxes, licenses and fees	12	3	-	15	5	-	20
Training and education	-	1	-	1	0	1	2
Travel and automobile	40	256	62	359	23	10	392
Utilities and telephone	27	106	7	140	16	6	162
Web hosting	55	119	4	178	45	32	255
Total expenses before depreciation	58,040	159,159	52,252	269,451	2,026	1,492	272,969
Depreciation and amortization	121	274	9	404	88	64	556
Total functional expenses - June 30, 2010	$ 58,161	$ 159,433	$ 52,261	$ 269,855	$ 2,114	$ 1,556	$ 273,525

The accompanying notes are an integral part of these financial statements.