

**LARSON &
RIDGE LLP**

Certified Public Accountants



Post Office Box 92021
Santa Barbara, CA 93190-2021

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**Independent Auditor's Report
And
Accompanying Financial Statements**

March 31, 2005

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

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INDEPENDENT AUDITOR'S REPORT


Board of Directors
Direct Relief International
Santa Barbara, California

We have audited the accompanying statements of financial position of Direct Relief International, a non-profit corporation, as of March 31, 2005 and as of December 31, 2003 and the related statements of activities, changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Direct Relief International's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International at March 31, 2005 and as of December 31, 2003 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

September 29, 2005
Santa Barbara, California


Larson & Ridge LLP
Certified Public Accountants

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2005**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2003

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total All Funds March 31, 2005	Total All Funds December 31, 2003
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,322,643	\$ 9,514,344	\$ -	\$ 12,836,987	\$ 891,247
Investments in marketable securities	6,569,831	17,135	10,000	6,596,966	4,056,769
Contributions receivable	298,679	32		298,711	440,053
Inventories	95,445,318			95,445,318	17,157,224
Prepaid expenses	40,903			40,903	32,552
Total current assets	105,677,374	9,531,511	10,000	115,218,885	22,577,845
Property and equipment - net of accumulated depreciation of \$721,161	3,169,394			3,169,394	3,054,299
Contributions receivable from remainder unitrusts	67,219			67,219	41,173
Investment in real estate	-			-	530,000
Other assets	5,437			5,437	18,787
Total assets	\$ 108,919,424	\$ 9,531,511	\$ 10,000	\$ 118,460,935	\$ 26,222,104
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Accounts payable	\$ 314,660	\$ -	\$ -	\$ 314,660	\$ 45,571
Current portion of long-term debt	49,242			49,242	44,692
Other current liabilities	219,975			219,975	172,756
Total current liabilities	583,877	-	-	583,877	263,019
Long-term debt	1,519,104			1,519,104	1,581,777
Distribution payable - split interest agreements		27,121		27,121	36,793
Total liabilities	2,102,981	27,121	-	2,130,102	1,881,589
Net assets:					
Unrestricted net assets:					
Board designated reserve fund	7,358,570			7,358,570	4,844,568
Undesignated	99,457,873			99,457,873	19,372,726
Total unrestricted net assets	106,816,443	-	-	106,816,443	24,217,294
Temporarily restricted assets		9,504,390		9,504,390	123,221
Permanently restricted assets			10,000	10,000	-
Total net assets	106,816,443	9,504,390	10,000	116,330,833	24,340,515
Total liabilities and net assets	\$ 108,919,424	\$ 9,531,511	\$ 10,000	\$ 118,460,935	\$ 26,222,104

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2005**

WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds March 31, 2005</u>	<u>Total All Funds December 31, 2003</u>
Public support and revenue					
Public support:					
In cash and securities:					
Contributions	\$ 6,483,900	\$ 13,040,856	\$ 10,000	\$ 19,534,756	\$ 2,392,997
Corporate and foundation grants	187,000	373,850		560,850	697,130
Freight reimbursements - U.S. Agency for International Development	104,544			104,544	121,746
Workplace giving campaigns	51,970			51,970	65,225
Special events	297,357			297,357	217,895
Total public support from cash and securities	<u>7,124,771</u>	<u>13,414,706</u>	<u>10,000</u>	<u>20,549,477</u>	<u>3,494,993</u>
From donated goods and services:				-	
Pharmaceuticals, medical supplies and equipment	199,570,989			199,570,989	98,211,195
Contributed freight	592,806			592,806	392,427
Professional services received	24,608			24,608	44,736
Total from goods and services	<u>200,188,403</u>	<u>-</u>	<u>-</u>	<u>200,188,403</u>	<u>98,648,358</u>
Total Public support	207,313,174	13,414,706	10,000	220,737,880	102,143,351
Revenue:					
Investment income	116,325	26,688		143,013	69,667
Gain on sale of investments	43,392	142		43,534	87,863
Change in value - split interest agreements	26,046			26,046	(3,383)
Unrealized gain on investments	339,273	(725)		338,548	679,167
Program service fees	10,625			10,625	-
Other income	45,789			45,789	67,772
Total revenue	<u>581,450</u>	<u>26,105</u>	<u>-</u>	<u>607,555</u>	<u>901,086</u>
Net assets released from restrictions:					
Restrictions satisfied by payments	4,102,960	(4,102,960)		-	-
Total public support and revenue	<u>211,997,584</u>	<u>9,337,851</u>	<u>10,000</u>	<u>221,345,435</u>	<u>103,044,437</u>
Expenses					
Program services:					
Medical supplies and related expenses	126,574,389			126,574,389	96,107,583
Supporting services:					
Fundraising	676,219			676,219	541,317
Administration	583,173			583,173	443,993
Total supporting services	<u>1,259,392</u>	<u>-</u>	<u>-</u>	<u>1,259,392</u>	<u>985,310</u>
Total expenses	<u>127,833,781</u>	<u>-</u>	<u>-</u>	<u>127,833,781</u>	<u>97,092,893</u>
Increase in net assets	<u>\$ 84,163,803</u>	<u>\$ 9,337,851</u>	<u>\$ 10,000</u>	<u>\$ 93,511,654</u>	<u>\$ 5,951,544</u>

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED MARCH 31, 2005**

WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2002	\$ 18,328,290	\$ 60,681	\$ -	\$ 18,388,971
Increase in net assets for the year ended December 31, 2003	5,889,004	62,540		5,951,544
Balance at December 31, 2003	<u>\$ 24,217,294</u>	<u>\$ 123,221</u>	<u>\$ -</u>	<u>\$ 24,340,515</u>
Balance at March 31, 2004	\$ 22,652,640	\$ 166,539	\$ -	\$ 22,819,179
Increase in net assets for the year ended March 31, 2005	84,163,803	9,337,851	10,000	93,511,654
Balance at March 31, 2005	<u>\$ 106,816,443</u>	<u>\$ 9,504,390</u>	<u>\$ 10,000</u>	<u>\$ 116,330,833</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2005

WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	Domestic Services	Program Services International Services	Tsunami Services	Total Program Services	Administration	Supporting Services Fundraising	Total Program and Supporting Services March 31, 2005	Total Program and Supporting Services December 31, 2003
Compensation and related benefits:								
Contributed services	\$ -	\$ 24,608	\$ -	\$ 24,608	\$ -	\$ -	\$ 24,608	\$ 44,736
Salaries	71,765	1,041,534	6,502	1,119,801	237,469	228,426	1,585,696	1,271,076
Payroll taxes	5,544	80,969	497	87,010	18,818	18,080	123,908	101,280
Employee benefits	11,255	164,371		175,626	30,638	18,325	224,589	182,833
Total compensation and related benefits	88,565	1,311,481	6,999	1,407,045	286,925	264,831	1,958,801	1,599,925
Other expenses								
Pharmaceuticals, medical equipment and supplies distributed	8,171,872	89,427,836	21,819,783	119,419,491			119,419,491	93,627,424
Inventory adjustments		296,270		296,270			296,270	-
Accounting and legal	206	2,811		3,017	16,522	452	19,991	20,456
Advertising	24	321		345	3,062	24,117	27,524	3,227
Bank charges and brokerage fees		771		771	94,038	-	94,809	7,161
Contract services	3,679	29,923	5,047	38,649	51,602	37,621	127,872	39,393
Contributed freight expense		592,806		592,806			592,806	392,427
Development education	69	942		1,011		7,782	8,793	6,194
Dues and subscriptions	621	8,461		9,082	4,409	650	14,141	12,655
Duplicating and printing	543	7,390		7,933	4,206	115,439	127,578	102,672
Equipment parts and refurbishment		14,720		14,720			14,720	12,966
Freight and processing charges	8,828	441,978	143,398	594,204			594,204	357,115
Grants and stipends	964	164,590	3,224,192	3,389,746			3,389,746	100,908
Hospitality	349	4,749		5,098	8,994	1,687	15,779	10,495
Insurance	2,145	29,219		31,364	685	559	32,608	25,052
Interest	5,464	74,429		79,893	1,788	1,446	83,127	91,316
Miscellaneous	17	228		245			245	1,375
Office supplies	1,302	17,736		19,038	5,653	10,120	34,811	21,225
Packing supplies	1,297	17,673		18,970			18,970	8,536
Postage and mailing services	190	2,582		2,772	1,962	24,431	29,165	17,391
Procurement	37,869	166,205	176,162	380,236			380,236	215,094
Public relations					58,125		58,125	49,716
Repairs and maintenance	1,544	21,026		22,570	9,887	9,502	41,959	25,000
Seminars	29	388		417	3,054	3,358	6,829	3,630
Special events						162,118	162,118	134,427
Taxes, licenses and fees	126	1,711		1,837	13,992		15,829	17,645
Travel and auto expenses	5,124	69,801	18,267	93,192	6,408	3,141	102,741	49,294
Utilities and telephone	2,530	34,459	493	37,482	4,390	2,094	43,966	36,804
Warehouse operations	558	7,608		8,166			8,166	10,959
Total expenses before depreciation	8,333,913	92,748,116	25,394,341	126,476,370	575,702	669,348	127,721,420	97,000,482
Depreciation and amortization	6,703	91,316		98,019	7,471	6,871	112,361	92,410
Total functional expenses	\$ 8,340,616	\$ 92,839,432	\$ 25,394,341	\$ 126,574,389	\$ 583,173	\$ 676,219	\$ 127,833,781	\$ 97,092,892

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED MARCH 31, 2005**

WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

	Total All Funds March 31, 2005	Total All Funds December 31, 2003
Cash flows from operating activities:		
Increase in net assets	\$ 93,511,654	\$ 5,951,544
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Increase in inventory	(79,855,228)	(4,586,086)
Depreciation and amortization	110,419	92,410
Realized gain on sale of investments	(43,534)	(87,863)
Unrealized gain on investments	(338,548)	(679,167)
Change in value of estate receivable	(26,046)	(490)
Changes in operating assets and liabilities:		
Contributions receivable	(256,236)	(233,936)
Prepaid expenses	1,406	(1,509)
Accounts payable	238,650	9,994
Accrued expenses	35,665	17,413
Other liabilities	38,395	30,605
Net cash provided by operating activities	<u>13,416,597</u>	<u>512,915</u>
Cash flows from investing activities:		
Purchases of property and equipment	(214,687)	(108,065)
Proceeds from the sale of real estate	600,000	
Proceeds from sales and maturities of investments	436,541	745,613
Purchases of investments	(1,984,371)	(1,043,404)
Investment in split interest agreements	(6,425)	(352)
Net cash used by investing activities	<u>(1,168,943)</u>	<u>(406,208)</u>
Cash flows from financing activities:		
Principal reduction on first and second trust deeds	(46,793)	(38,640)
Line of credit	1,358	-
Net cash used by financing activities	<u>(45,435)</u>	<u>(38,640)</u>
 Net increase in cash and cash equivalents	 12,202,219	 68,067
Cash and cash equivalents - beginning of period	<u>634,768</u>	<u>823,179</u>
Cash and cash equivalents - end of period	<u>\$ 12,836,987</u>	<u>\$ 891,246</u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 83,127	\$ 91,316

See notes to financial statements

Note 1: Summary of Significant Accounting Policies

Organization and basis of presentation:

Direct Relief International (the Organization), a California non-profit public benefit corporation, was founded in 1948.

The Organization's program services consist of providing essential pharmaceuticals, medical supplies and medical equipment on a humanitarian basis to support health services in developing countries worldwide. In the United States, the Organization conducts programs to improve the oral health of low-income children and enhance disaster preparedness in local communities. It also furnishes medicines and supplies through California free and community health clinics to serve low-income, medically uninsured patients. Under agreements with local emergency response authorities, the Organization's medical inventories are available on an as-needed basis in the event of a health emergency.

The medical material resources provided as part of the Organization'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.

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.

In 2003, the Board of Directors approved changing the Organization's fiscal year from a December 31 year end to a March 31 year end. A short fiscal year, which began January 1, 2004, and ended March 31, 2004, was used to bridge the old and new twelve-month reporting periods.

To present comparative financial statements, the Organization has included summarized comparative information for the twelve-month period ending on December 31, 2003. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2003, from which the summarized information was derived.

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 \$12.837 million and \$891,241 as of March 31, 2005 and December 31, 2003, respectively.

Fair Values of Financial Instruments:

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices or, in the case of alternative investments, at values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods.

The estimated fair values of the Organization's financial instruments were as follows at March 31, 2005 and December 31, 2003 (in thousands):

	2005		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$ 12,837	\$ 12,837	\$ 891	\$ 891
Investments				
Current	-	-	3	3
Non current	6,597	6,597	4,054	4,054
Liabilities				
Current debt	49	49	45	45
Non current debt	1,519	1,519	1,582	1,582

The carrying value of all other financial instruments approximates fair value.

Investments:

Investments are reported at fair value. The separately managed Board Restricted Investment Fund accumulates portfolio income and realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Directors. Amounts annually available for expenditure are based on the Board of Directors approved distribution rate, currently five percent (5%) of Fund's portfolio assets.

Inventory:

Purchased inventory is carried at cost. Donated inventory is carried at estimated wholesale value as of the date of receipt. Inventory balances as of March 31, 2005 was composed of the following (in thousands):

	<u>2005</u>
Pharmaceuticals	\$ 85,965
Medical supplies	8,341
Equipment	<u>1,139</u>
Total inventory	\$ <u>95,445</u>

Land, buildings and other property:

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

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

Revenue recognition:

Contributions, which include unconditional promises to give (pledges), are recognized as revenues 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 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 such restrictions will be met in the current reporting period.

Program service revenues are generally recognized upon delivery of the product or service to the customer.

Contributed materials and services:

Contributions of pharmaceutical and medical supplies are recorded at estimated wholesale value on the date received, based on published wholesale price indexes for pharmaceuticals and medical supplies. Contributions of medical equipment are recorded at estimated wholesale value based upon wholesale price guides or, when necessary, judgmentally determined.

Donated shipping is valued at full published rates in effect at the time of shipment. 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.

The Organization recorded the following revenues for the years ended March 31, 2005 and December 31, 2003 (in thousands):

	2005	2003
Donated pharmaceuticals, supplies, and equipment	\$ 199,571	\$ 98,211
Donated shipping	592	392
Contributed services	25	45
Total donated goods and services	<u>\$ 200,188</u>	<u>\$ 98,648</u>

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 gift annuities. The future interests in the gift annuities and unitrust are recorded as assets and valued at fair value on the date of each gift. Investments in the trust and in the gift annuities are adjusted to market 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.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain 2003 balances have been reclassified to conform to the 2005 presentation,

Note 2: Contributions Receivable

As of March 31, 2005, and December 31, 2003, the Organization had recorded contributions receivable of \$298,711 and \$440,503, respectively. The receivables were primarily composed of mailed checks and credit card charge authorizations postmarked prior to period end but received after period end.

Note 3: Investments

The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". This statement requires that nonprofit organizations record investments at fair market value in the statements of financial position. Investment holdings as of March 31, 2005, and December 31, 2003 are composed of the following (in thousands):

	2005		2003	
	Cost	Market	Cost	Market
Mutual funds	\$ 4,103	\$ 5,070	\$ 3,222	\$ 3,794
Alternative investments	1,404	1,519	250	260
Other	8	8	3	3
Total Investments	<u>\$ 5,515</u>	<u>\$ 6,597</u>	<u>\$ 3,475</u>	<u>\$ 4,057</u>

Note 4: Property and Equipment

The Organization's investment in property and equipment as of March 31, 2005, and December 31, 2003, consisted of the following (in thousands):

	2005	2003
Land	\$ 1,364	\$ 1,364
Office and Warehouse	1,864	1,797
Vehicles, equipment and software	663	481
Total	3,891	3,642
Less: Accumulated Depreciation	-721	-588
Net Property and Equipment	\$ 3,170	\$ 3,054

Note 5: Debt

The Organization's long-term debt consists of the following as of March 31, 2005, and December 31, 2003 (in thousands):

	2005	2003
Mortgage note payable, requiring monthly payments of \$ 7,604 including interest at 5.50%, maturing on October 1, 2007	\$ 1,122	\$ 1,158
Mortgage note payable, requiring monthly payments of \$ 3,222 including interest at 4.50%, maturing on November 1, 2007		
	446	468
Total long-term debt	1,568	1,626
Less: current portion	-49	-45
Long-term portion	\$ 1,519	\$ 1,581

The mortgage notes are secured by the Organization's warehouse facility. The following is a summary of principal maturities of long-term debt during the next five fiscal years (in thousands):

2006	\$ 49
2007	51
2008	1,468
Total	\$ 1,568

Note 6: Net Assets

Unrestricted net assets consisted of the following at March 31, 2005, and December 31, 2003 (in thousands):

	<u>2005</u>	<u>2003</u>
Designated by the Board of Directors for:		
Operating reserves	\$ 7,359	\$ 4,845
Undesignated	<u>99,458</u>	<u>19,373</u>
Total unrestricted net assets	<u>\$ 106,817</u>	<u>\$ 24,218</u>

Temporarily restricted net assets are available for the following purposes at March 31, 2005 and December 31, 2003 (in thousands):

	<u>2005</u>	<u>2003</u>
Tsunami recovery efforts	\$ 9,292	\$ -
Country-specific assistance shipments	53	-
Bolivian rural health clinic	48	58
Caribbean hurricane recovery efforts	42	-
Local health initiatives and programs	33	35
Other activities	<u>36</u>	<u>30</u>
Total temporarily restricted net assets	<u>\$ 9,504</u>	<u>\$ 123</u>

Permanently restricted net assets consisted of endowed contributions, the income from which is available to fund the following at March 31, 2005 and December, 31, 2003 (in thousands):

	<u>2005</u>	<u>2003</u>
General operations	\$ 10	\$ -
Specific purposes	<u>-</u>	<u>-</u>
Total unrestricted net assets	<u>\$ 10</u>	<u>\$ -</u>

Donor-restricted endowment gifts shall be invested and accounted for according to the terms of the specific gift(s) and/or the provisions of California Probate Code sections 18500-18509 (Uniform Management of Institutional Funds Act).

Note 7: Board Restricted Investment Fund

In 1998, the Organization established a board-designated investment fund (formerly known as the "Quasi-Endowment Fund"). The purpose of the fund was to provide a reserve for future operations. The Fund'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.

The Fund is currently authorized to distribute up to five percent (5%) of the average market value (measured January 1 for the three preceding years) of the Fund's portfolio assets to support general operations. Distributions in excess of five (5%) require a 75% vote of the Board of Directors. Distributions of \$290,000 and \$75,000 were made during the twelve month periods ending December 31, 2005, and December 31, 2003, respectively. The previous distribution policy, which called for distributions of up to six (6%) percent of the Fund's portfolio assets, measured at the beginning of the current fiscal year, was changed in September 2004.

For the twelve month periods ending March 31, 2005 and December 31, 2003, the fund received support and revenues consisting of the following (in thousands):

	<u>2005</u>	<u>2003</u>
Board designated bequests and donations	\$ 2,095	\$ 84
Dividends and interest	109	68
Realized gains	61	90
Unrealized gains	339	679
Change in value – split interest agreements	26	3
Total	<u>\$ 2,630</u>	<u>\$ 924</u>

The Fund incurred expenses of \$6,850 and \$6,403, respectively, during the twelve month periods ending March 31, 2005 and December 31, 2003.

Note 8: 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.

Prior to 2004, the Organization maintained a tax deferred annuity plan established under Internal Revenue Code section 403(b).

The Organizations contributions to the various pension plans amounted to \$52,272 and \$27,842, respectively, for the twelve months ended March 31, 2005 and December 31, 2003.

Note 9: 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 March 31, 2005, and December 31, 2003, was \$10,020 and \$9,920, respectively.

Note 10: 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 three months ended March 31, 2004, the Organization was at risk for \$10,534,784 in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to \$ 100,000. 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 11: Lease Obligation

On July 21, 2005, in response to a significant increase in product donations, the Organization signed a sublease to acquire an additional 23,000 square feet of storage space. The terms of the lease call for an initial monthly base rent of \$23,043, with a provision for periodic index-based adjustments. The lease term is twenty nine months, beginning August 1, 2005 and ending December 31, 2007. Total monthly base rents due during the term of the lease are \$668,247.