

**LARSON &
RIDGE LLP**

Certified Public Accountants



Post Office Box 92021
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**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

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

December 31, 2000

**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 December 31, 2000 and the related statements of activities, changes in net assets, functional expenses and cash flows for the year 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 audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit provides 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 December 31, 2000 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statement of financial position and statements of activities and changes in net assets for the restricted funds are not a required part of the basic financial statements. These schedules are the responsibility of Direct Relief International's management.

Such supplemental schedules for the year ended December 31, 2000 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

March 27, 2001
Santa Barbara, California

L. Larson & Ridge LLP
Larson & Ridge LLP
Certified Public Accountants

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2000**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 1999

ASSETS	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Total All Funds December 31, 2000</u>	<u>Total All Funds December 31, 1999</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 353,540	\$ 683,781	\$ 1,037,321	\$ 1,204,503
Investments in marketable securities	-	1,137,495	1,137,495	132,688
Accounts receivable	12,347	-	12,347	-
US AID receivable	21,735	-	21,735	29,646
Pledges receivable	-	-	-	15,000
Contributions receivable	111,514	-	111,514	59,256
Grants receivable	-	25,000	25,000	5,000
Inventories	27,280,404	-	27,280,404	18,318,237
Prepaid expenses	23,793	-	23,793	8,259
TOTAL CURRENT ASSETS	<u>27,803,333</u>	<u>1,846,276</u>	<u>29,649,609</u>	<u>19,772,589</u>
Future interest in unitrust	-	46,254	46,254	48,903
Investment in gift annuity trust	-	38,343	38,343	44,018
Investment in condominium	-	125,000	125,000	125,000
Notes receivable	-	10,000	10,000	16,000
Contributions receivable from remainder unitrusts	-	1,181,309	1,181,309	1,234,413
Property and equipment - net of accumulated depreciation of \$355,324	3,079,893	530,000	3,609,893	3,096,423
Deposits	779	-	779	1,882
Deferred loan costs	14,381	-	14,381	16,485
Due from other funds	238	397,044	397,282	153,754
TOTAL ASSETS	<u>\$ 30,898,624</u>	<u>\$ 4,174,226</u>	<u>\$ 35,072,850</u>	<u>\$ 24,509,467</u>

See notes to financial statements

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2000**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 1999

	Unrestricted Funds	Restricted Funds	Total All Funds December 31, 2000	Total All Funds December 31, 1999
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 69,096	\$ -	\$ 69,096	\$ 87,842
Accrued compensated absences	29,452	-	29,452	30,497
Accrued expenses	6,512	-	6,512	18,255
Current portion of long-term debt	25,219	-	25,219	28,049
Capital lease obligation	6,704	-	6,704	11,498
Other liabilities	-	2,006	2,006	1,996
TOTAL CURRENT LIABILITIES	136,983	2,006	138,989	178,137
Long-term debt	1,694,159	-	1,694,159	1,720,982
Distribution payable - unitrust	-	25,436	25,436	30,329
Distribution payable - gift annuity trust	-	38,231	38,231	39,025
Capital lease obligation	-	-	-	-
Due to other funds	397,044	238	397,282	153,754
TOTAL LIABILITIES	2,228,186	65,911	2,294,097	2,122,227
NET ASSETS :				
Unrestricted net assets:				
Undesignated	28,670,438	-	28,670,438	20,065,761
Temporarily restricted	-	4,108,315	4,108,315	2,321,479
TOTAL NET ASSETS	28,670,438	4,108,315	32,778,753	22,387,240
TOTAL LIABILITIES AND NET ASSETS	\$ 30,898,624	\$ 4,174,226	\$ 35,072,850	\$ 24,509,467

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2000**

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds December 31, 2000</u>	<u>Total All Funds December 31, 1999</u>
PUBLIC SUPPORT AND REVENUE				
PUBLIC SUPPORT:				
Contributions:				
In cash and securities	\$ 1,620,082	\$ 1,158,650	\$ 2,778,732	\$ 2,447,464
Interest in remainder unitrusts	-	-	-	-
In-kind - pharmaceutical and medical supplies	76,811,999	-	76,811,999	58,192,096
In-kind - nonmedical	20,959	-	20,959	36,870
Contributed freight	395,253	-	395,253	480,504
Freight subsidy	137,663	-	137,663	193,697
Volunteer services	53,297	-	53,297	76,916
Combined federal campaign contributions	39,500	-	39,500	42,736
Grants	323,730	69,270	393,000	213,750
Fundraising events	538,668	-	538,668	13,868
TOTAL PUBLIC SUPPORT	<u>79,941,151</u>	<u>1,227,920</u>	<u>81,169,071</u>	<u>61,697,901</u>
REVENUE:				
Investment income	19,514	83,642	103,156	58,269
Gain (loss) on sale of investments	973	9,455	10,428	(11,008)
Change in value of estates receivable	-	128,345	128,345	139,424
Unrealized gain (loss) on investments	-	(85,276)	(85,276)	(4,506)
Other income (loss)	15,521	37,095	52,616	41,263
TOTAL REVENUE	<u>36,008</u>	<u>173,261</u>	<u>209,269</u>	<u>223,442</u>
TOTAL PUBLIC SUPPORT AND REVENUE	79,977,159	1,401,181	81,378,340	61,921,343
Net Assets Released From Restrictions	95,662	(95,662)	-	-
Net Assets Transferred From Unrestricted Net Assets to Restricted Net Assets	<u>(481,317)</u>	<u>481,317</u>	<u>-</u>	<u>-</u>
	<u>79,591,504</u>	<u>1,786,836</u>	<u>81,378,340</u>	<u>61,921,343</u>
EXPENSES				
PROGRAM SERVICES:				
Medical supplies and related expenses	70,057,785	-	70,057,785	55,292,182
SUPPORTING SERVICES				
Resource acquisition	532,343	-	532,343	243,014
Administration	396,699	-	396,699	336,079
TOTAL SUPPORTING SERVICES	<u>929,042</u>	<u>-</u>	<u>929,042</u>	<u>579,093</u>
TOTAL EXPENSES	<u>70,986,827</u>	<u>-</u>	<u>70,986,827</u>	<u>55,871,275</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 8,604,677</u>	<u>\$ 1,786,836</u>	<u>\$ 10,391,513</u>	<u>\$ 6,050,068</u>

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2000**

WITH COMPARARIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at December 31, 1998	\$ 14,536,977	\$ 1,800,195	\$ 16,337,172
Increase in net assets for the year ended December 31, 1999	<u>5,528,784</u>	<u>521,284</u>	<u>6,050,068</u>
Balance at December 31, 1999	20,065,761	2,321,479	22,387,240
Increase in net assets for the year ended December 31, 2000	8,604,677	1,786,836	10,391,513
Balance at December 31, 2000	<u>\$ 28,670,438</u>	<u>\$ 4,108,315</u>	<u>\$ 32,778,753</u>

See notes to financial statements.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2000**

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 1999

	Program Services		Supporting Services	Total Program and Supporting Services December 31,	
	Domestic	International		2000	1999
Contributed services	\$ 5,760	\$ 42,502	\$ 5,035	\$ 53,297	\$ 76,916
Salaries	41,380	648,283	344,939	1,034,602	888,813
Payroll taxes	5,077	79,532	34,640	119,249	100,552
Employee benefits	3,543	55,522	68,427	127,492	100,832
Total Salaries and Related Expenses	55,760	825,839	453,041	1,334,640	1,167,113
Pharmaceuticals, medical equipment and supplies distributed	352,819	67,497,012	-	67,849,831	52,931,445
Accounting and legal	-	-	12,321	12,321	11,313
Advertising	31	479	7,146	7,656	9,859
Bad debt expense	-	-	-	-	1,001
Bank charges and brokerage fees	-	-	12,690	12,690	5,160
Building expenses	37	586	25	648	2,302
Contract services	18,645	24,067	37,791	80,503	88,513
Contributed freight expense	2,055	393,198	-	395,253	480,503
Development education	8	127	8,594	8,729	7,252
Dues and subscriptions	529	8,280	5,102	13,911	5,633
Duplicating and printing	475	7,448	42,138	50,061	49,287
Equipment parts and refurbishment	1,017	15,940	-	16,957	19,742
Freight and processing charges	1,298	248,266	-	249,564	339,039
Grants and stipends	-	20,020	-	20,020	3,500
In-kind contribution solicitation	270	4,233	-	4,503	7,598
Insurance	954	14,949	624	16,527	17,736
Interest	7,966	124,802	5,304	138,072	142,399
Miscellaneous	78	1,210	10,283	11,571	6,904
Office supplies	567	8,891	10,019	19,477	23,089
Packing supplies	211	3,312	-	3,523	3,128
Postage and mailing services	296	4,644	6,686	11,626	11,680
Procurement	24,586	249,710	-	274,296	376,662
Program evaluation	-	10,467	-	10,467	12,692
Public relations	22	339	1,999	2,360	3,201
Publications	35	541	604	1,180	912
Repairs and maintenance	356	5,579	5,967	11,902	12,901
Seminars	94	1,475	2,379	3,948	4,506
Special events	-	-	268,382	268,382	5,908
Taxes, licenses and fees	58	914	7,435	8,407	3,753
Travel and auto expenses	876	13,727	9,262	23,865	4,058
Utilities and telephone	1,917	30,032	5,690	37,639	32,995
Warehouse operations	704	11,026	-	11,730	3,049
Total Expenses Before Depreciation	471,664	69,527,113	913,482	70,912,259	55,794,833
Depreciation and amortization	398	58,610	15,560	74,568	76,442
Total Functional Expenses	\$ 472,062	\$ 69,585,723	\$ 929,042	\$ 70,986,827	\$ 55,871,275

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Total All Funds December 31, 2000</u>	<u>Total All Funds December 31, 1999</u>
Cash flows from operating activities:				
Increase in net assets	\$ 8,604,677	\$ 1,786,836	\$ 10,391,513	\$ 6,050,068
Adjustments to reconcile changes in net assets to net cash provided by operating activities				
In-kind receipt of inventory	(76,811,999)	-	(76,811,999)	(58,192,097)
In-kind distribution of inventory	67,849,831	-	67,849,831	52,931,445
Depreciation	74,568	-	74,568	76,442
Amortization of discount on promissory note	-	-	-	(25,569)
Changes in operating assets and liabilities				
Accounts receivable	(12,347)	-	(12,347)	140
Pledges receivable	15,000	-	15,000	16,000
Contributions receivable	(52,258)	-	(52,258)	(40,016)
US AID receivable	7,911	-	7,911	21,489
Grants receivable	-	(20,000)	(20,000)	40,104
Prepaid expenses	(15,534)	-	(15,534)	(56)
Other assets	(1,103)	-	(1,103)	367
Due from other funds	3,408	(246,936)	(243,528)	(78,436)
Accounts payable	(18,746)	-	(18,746)	25,884
Accrued compensated absences	(1,045)	-	(1,045)	12,300
Accrued expenses	(11,743)	-	(11,743)	(4,525)
Other liabilities	-	10	10	12
Due to other funds	246,936	(3,408)	243,528	78,436
Net cash provided by operating activities	<u>(122,444)</u>	<u>1,516,502</u>	<u>1,394,058</u>	<u>911,988</u>
Cash flows from investing activities:				
Purchases of property and equipment	(53,737)	(530,000)	(583,737)	(56,708)
Proceeds from sales and maturities of investments	-	-	-	-
Purchases of investments	-	(1,004,807)	(1,004,807)	369,432
Investment in gift annuities	-	4,881	4,881	7,001
Investment in unitrust	-	(2,244)	(2,244)	(1,308)
Contributions receivable from remainder unitrusts	-	53,104	53,104	(460,700)
Note receivable	-	6,000	6,000	323,049
Net cash used by investing activities	<u>(53,737)</u>	<u>(1,473,066)</u>	<u>(1,526,803)</u>	<u>180,766</u>
Cash flows from financing activities:				
Reduction of capital lease obligation	(4,794)	-	(4,794)	(4,339)
Reduction of line-of-credit	-	-	-	-
Principal reduction on first trust deed	(29,643)	-	(29,643)	(25,899)
Net cash used by financing activities	<u>(34,437)</u>	<u>-</u>	<u>(34,437)</u>	<u>(30,238)</u>
Net increase(decrease) in cash and cash equivalents	(210,618)	43,436	(167,182)	1,062,516
Cash and cash equivalents at beginning of year	<u>564,158</u>	<u>640,345</u>	<u>1,204,503</u>	<u>141,987</u>
Cash and cash equivalents at end of year	<u>\$ 353,540</u>	<u>\$ 683,781</u>	<u>\$ 1,037,321</u>	<u>\$ 1,204,503</u>

See notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 1: Summary of Significant Accounting Policies

Organization

Direct Relief International is organized as a California non-profit public benefit corporation to provide pharmaceuticals, medical supplies, equipment and services to medically less developed areas around the world and to provide medical assistance to victims of natural and man-made disasters.

Financial Statement Presentation

In 1995, the Organization adopted Statement of Financial Accounting Standards (SFAS) No.117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

The Organization also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made" in 1995. In accordance With SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises To Give (Pledges)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Promises To Give (Pledges) (continued)

the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific pledges made.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventory and In-kind Medical Contributions Received

Contributions of pharmaceutical and medical supplies are recorded on the books of account and in the financial statements 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.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their useful lives of five to forty years.

Investments

The Organization adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," in 1996. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

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.

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 trust and in the gift annuities are recorded as assets and valued at fair market value on the date of each gift. Investments in the trust and in the gift annuities are adjusted to market value each year-end. The present value of the total estimated future distributions to the donors on the date of each gift are recorded as liabilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Note 2: 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.

<u>Fund</u>	<u>December 31, 2000</u>	
	<u>Cost</u>	<u>Fair Market Value</u>
Starbuck Tisdale Managed Account	\$1,213,323	\$1,137,495

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 3: Pledges Receivable

Pledges receivable are recorded at the net present value of the future cash flows. At December 31, 2000 and 1999, outstanding pledges were due as follows:

	December 31, <u>2000</u>	December 31, <u>1999</u>
Within one year	\$ -	\$ 15,000
One to five years	-	-
More than five years	-	-
Subtotal	<u>-</u>	<u>15,000</u>
Less: present value component	(-)	(-)
Less: doubtful accounts	(-)	(-)
Total pledges receivable	<u>\$ -</u>	<u>\$ 15,000</u>

Note 4: Due From Zimdin Estate

The Organization has a 56% equity interest in the William Zimdin Estate and Foundation, a co-tenancy consisting of the holders of remainder interests in certain property under the will of William Zimdin. The remaining asset in the form of real property, subject to a life estate in the decedent's widow, was sold in 1995. Total proceeds from the sale of the real property included a note receivable of \$ 571,797 and an investment in a condominium purchased for \$ 225,000. The Organization's share in the note receivable was \$ 323,049 and \$ 125,000 in the condominium. The note receivable was paid off during 1999 and the funds are being maintained in a certificate of deposit account. Elisabeth Zimdin continues to receive interest payments equal to 5.45% of the new certificate of deposit account balance annually. At the time of Elisabeth Zimdin's death, the remaining funds in the certificate of deposit account and the proceeds from the sale of the condominium will be disbursed to Direct Relief International and other parties. As the note balance was repaid during 1999, the Organization has reclassified its interest in the escrow funds to contributions from remainder unitrusts.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 5: Charitable Remainder Unitrust Agreements

During 1998, two separate donors established charitable remainder unitrusts in which the Organization has been named a charitable remainderman. Within each unitrust agreement, upon the death of all income beneficiaries named in the unitrust agreements, the Organization will receive a lump sum distribution of their proportionate share. Based upon the life expectancy of the income beneficiaries and a 8% discount rate, the present value of future benefits expected to be received by the Organization was estimated to be \$773,713, which was recorded in 1998 as a temporarily restricted contribution within the Endowment Fund and as a contribution receivable from remainder unitrust. During the year ended December 31, 2000, the Organization received a partial distribution of \$291,761 from one of the unitrusts as a result of the death of an income beneficiary. The Organization should receive an equivalent distribution during 2001. For the year ended December 31, 2000, the Organization's interest in the above-mentioned charitable remainder unitrusts increased by \$128,345. The total contributions receivable from remainder unitrusts is \$1,181,309 at December 31, 2000.

Note 6: Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2000</u>	<u>1999</u>
Office and Warehouse	\$ 3,022,150	\$ 3,022,150
Other real estate	530,000	-
Office equipment	126,873	88,377
Warehouse equipment	60,188	60,188
Bio-medical testing equipment	13,091	3,970
Computer equipment	73,552	71,849
Computer software	11,246	11,246
Delivery equipment	19,860	-
Leasehold improvements	<u>88,257</u>	<u>83,067</u>
Total	3,945,217	3,340,847
Accumulated depreciation	(335,324)	(244,244)
Net Property and equipment	<u>\$ 3,609,893</u>	<u>\$ 3,096,423</u>

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 7: Debt

The Organization's long-term debt consists of the following at:

	<u>December 31, 2000</u>	<u>December 31, 1999</u>
Mortgage note payable, requiring monthly payments of \$ 9,442 including interest at 8.00%, maturing on October 1, 2007	\$ 1,220,826	\$ 1,749,031
Mortgage note payable, requiring monthly payments of \$ 3,222 including interest at 6.00%, maturing on November 1, 2007	\$ 498,552	\$ -
Line-of-credit dated March 28, 2000, maximum available borrowing of \$ 250,000, interest payable monthly at 9.0% annual interest rate, due May 1, 2001	<u>-</u>	<u>-</u>
Total long-term debt	1,719,378	1,749,031
Less: current portion	<u>25,219</u>	<u>28,049</u>
Long-term portion	<u>\$ 1,694,159</u>	<u>\$ 1,720,982</u>

The mortgage notes are secured by the office and warehouse facility. The following is a summary of principal maturities of long-term debt during the next five years:

2000	\$ 25,219
2001	27,121
2002	29,168
2003	31,373
2004	33,748
Thereafter	<u>1,572,749</u>
	<u>\$1,719,378</u>

**DIRECT RELIEF INTERNATIONAL
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 8: Endowment Fund

As of March 1, 1998, the Board of Trustees created an Endowment Fund in the amount of \$773,786, consisting of certain assets previously included in the General Fund. Future funding of the Endowment Fund will consist of the following sources:

- 1) Estate gifts
- 2) Contributions in excess of annual budgeted fundraising goals
- 3) Donor-restricted contributions to the endowment fund
- 4) Other sources of income designated by the board.
- 5) 15% of all undesignated contributions received during the year.

During the year ended December 31, 2000, the Organization received contributions in the amount of \$1,117,356 for the Endowment Fund while investment and other income for the Endowment Fund was \$173,243. In addition, \$374,836 was transferred to the Endowment Fund during the year ended December 31, 2000 which represents 15% of all undesignated contributions and contributions in excess of the budgeted goal. Total net assets of the Endowment Fund are \$4,046,881 at December 31, 2000.

Note 9: Contributed Freight

Contributed freight of \$395,253 and \$480,504 for the years ended December 31, 2000 and 1999, respectively, represents estimated shipping expenses incurred by other organizations on behalf of Direct Relief International in the shipment of medical supplies to foreign countries.

Note 10: Pension Plan

The Organization has an employee participation pension plan. Prior to 1996, employee contributions to the plan were matched by the Organization, up to a maximum of 5% of the employee's annual gross salary. The annuity costs associated with the plan for the years 2000 and 1999 were \$38,522 and \$27,625, respectively. All full-time employees with at least one Year of Service are eligible to participate in the plan.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 11: 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 2000 and 1999 is \$ 22,319 and \$ 39,679, respectively.

Note 12: Related Party Transactions

During 2000 and 1999, members of the Organization's board of trustees made undesignated cash contributions to the Organization totaling \$1,032,433 and \$138,066, respectively, as part of each year's annual campaign.

Note 13: Contributed Services

The Organization records the estimated value of volunteer services that are an integral part of its operations. The estimated value of volunteer services is as follows:

	<u>December 31, 2000</u>	<u>December 31, 1999</u>
Warehouse operations	\$ 14,025	\$ 8,148
Medical volunteers	6,673	13,590
Field assessment volunteers	9,700	17,540
Legal	5,035	10,675
Program planning and coordination	<u>17,864</u>	<u>26,963</u>
	<u>\$ 53,297</u>	<u>\$ 76,916</u>

In addition to the above, the Organization received 7,655 hours of volunteer services of a non-professional, non-technical nature.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 14: **Supplemental Cash Flow Disclosures**

The Organization paid interest of \$138,072 and \$142,399 for the years ended December 31, 2000 and 1999, respectively.

Note 15: **Concentrations of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of certificates of deposit and pledges receivable. The Organization places its temporary cash investments with financial institutions and securities brokers. At December 31, 2000, the Organization was at risk for \$937,321 in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to \$ 100,000. The credit risk associated with pledges receivable has been recognized through the allowance for uncollectible pledges. In addition, the Organization's investments are exposed to various risks, such as interest rate, market and credit. 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 reasonable possible, that changes in risks in the near term would materially effect the Organization's statement of financial position and the statement of activities.

Note 16: **Fair Value Of Financial Instruments**

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2000 and 1999 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgement is necessarily required in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

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

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000**

Note 17: Capital Lease Obligation

During the year ended December 31, 1997, the Organization entered into a capital lease obligation for the acquisition of a forklift. The total capitalized cost of the forklift is \$ 22,485 and accumulated depreciation of the asset at December 31, 2000 is \$8,994. The following table breaks out the future lease obligations over the remaining three years of the lease:

2001	5,728
2002	<u>1,432</u>
	7,160
Less: interest	<u>456</u>
Net present value	6,704
Less: current portion	<u>5,296</u>
Long-term portion	<u>\$ 1,408</u>

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
SCHEDULE I-STATEMENT OF FINANCIAL POSITION
RESTRICTED FUNDS
DECEMBER 31, 2000

	Endowment Fund	Community Revolving Disaster	Friends of DRI	General Fund	Total All Funds December 31, 2000
CURRENT ASSETS:					
Cash and cash equivalents	\$ 581,436	\$ 2,006	\$ 3,310	\$ 97,029	\$ 683,781
Investment in marketable securities	1,137,495	-	-	-	1,137,495
Grants receivable	-	-	-	25,000	25,000
TOTAL CURRENT ASSETS	1,718,931	2,006	3,310	122,029	1,846,276
Future interest in unitrust	46,254	-	-	-	46,254
Investment in gift annuity trust	38,343	-	-	-	38,343
Investment in condominium	125,000	-	-	-	125,000
Note receivable	10,000	-	-	-	10,000
Contributions from remainder unitrusts	1,181,309	-	-	-	1,181,309
Real estate	530,000	-	-	-	530,000
Due from other funds	397,044	-	-	-	397,044
TOTAL ASSETS	\$ 4,046,881	\$ 2,006	\$ 3,310	\$ 122,029	\$ 4,174,226

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:					
UCSB staff disaster emergency fund	\$ -	\$ 2,006	\$ -	\$ -	\$ 2,006
LONG TERM LIABILITIES:					
Distributions payable - unitrust	25,436	-	-	-	25,436
Distributions payable - gift annuity trust	38,231	-	-	-	38,231
Due to other funds	-	238	-	-	238
TOTAL LONG-TERM LIABILITIES LIABILITIES	63,667	238	-	-	63,905
TOTAL LIABILITIES	63,667	2,244	-	-	65,911
NET ASSETS	3,983,214	(238)	3,310	122,029	4,108,315
TOTAL LIABILITIES AND NET ASSETS	\$ 4,046,881	\$ 2,006	\$ 3,310	\$ 122,029	\$ 4,174,226

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

SCHEDULE II - STATEMENT OF ACTIVITIES
RESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	Endowment Fund	Friends of DRI	General Fund	Total All Funds December 31, 2000
PUBLIC SUPPORT AND REVENUE				
PUBLIC SUPPORT:				
Contributions	\$ 1,117,356	\$ 810	\$ 40,484	\$ 1,158,650
In cash and securities	-	-	-	-
Interest in remainder unitrusts	-	-	69,270	69,270
Grants	-	-	-	-
Volunteer services (Note 11)	-	-	-	-
TOTAL PUBLIC SUPPORT	<u>1,117,356</u>	<u>810</u>	<u>109,754</u>	<u>1,227,920</u>
REVENUE:				
Investment income	83,624	18	-	83,642
Realized gain on investments	9,455	-	-	9,455
Unrealized loss on investments	(85,276)	-	-	(85,276)
Change in value of estates receivable	128,345	-	-	128,345
Other income	37,095	-	-	37,095
TOTAL REVENUE	<u>173,243</u>	<u>18</u>	<u>-</u>	<u>173,261</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>1,290,599</u>	<u>828</u>	<u>109,754</u>	<u>1,401,181</u>
Net Assets Released From Restrictions	-	-	(95,662)	(95,662)
Net Assets Transferred From Unrestricted Net Assets to Restricted Net Assets	<u>470,147</u>	<u>(13,354)</u>	<u>24,524</u>	<u>481,317</u>
	<u>1,760,746</u>	<u>(12,526)</u>	<u>38,616</u>	<u>1,786,836</u>
EXPENSES				
PROGRAM SERVICES:				
Medical supplies and related expenses	-	-	-	-
Net assets released from restrictions	-	-	-	-
Restrictions satisfied by payments	-	-	-	-
SUPPORTING SERVICES:				
Resource acquisition	-	-	-	-
Net assets released from restrictions	-	-	-	-
Restrictions satisfied by payments	-	-	-	-
TOTAL SUPPORTING SERVICES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE(DECREASE) IN NET ASSETS	<u>\$ 1,760,746</u>	<u>\$ (12,526)</u>	<u>\$ 38,616</u>	<u>\$ 1,786,836</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

SCHEDULE III - STATEMENT OF CHANGES IN NET ASSETS
RESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000

	Endowment Fund	Community Revolving Disaster Fund	Friends of DRI	General Fund	Total All Funds
Balance at December 31, 1999	\$ 2,222,468	\$ (238)	\$ 15,836	\$ 83,413	\$ 2,321,479
Increase(decrease) in net assets	1,760,746	-	(12,526)	38,616	1,786,836
Balance at December 31, 2000	\$ 3,983,214	\$ (238)	\$ 3,310	\$ 122,029	\$ 4,108,315

See notes to financial statements