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

COMBINED AND CONSOLIDATED
FINANCIAL STATEMENTS

JUNE 30, 2012

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

June 30, 2012

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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, 2012, 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. Information for the year ended June 30, 2011, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated October 14, 2011, was expressed.

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, 2012, 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 20 - 22 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.

McGowan Guntermann

November 14, 2012

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

COMBINED AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2011
Assets					
Current assets:					
Cash and cash equivalents	$ 4,970	$ 5,514	$ -	$ 10,484	$ 8,690
Investments	20,119	604	25	20,749	27,388
Contributions and other receivables	201	-	-	201	439
Inventories	193,394	-	-	193,394	206,700
Prepaid expenses	202	-	-	202	188
Total current assets	218,886	6,118	25	225,030	243,405
Property and equipment - net of accumulated depreciation of $3,318	6,299	-	-	6,299	6,871
Bequest receivable	-	60	-	60	141
Other assets	-	666	-	666	138
Total assets	$ 225,186	$ 6,844	$ 25	$ 232,055	$ 250,554
Liabilities and Net Assets					
Liabilities:					
Current liabilities					
Accounts payable	$ 483	$ -	$ -	$ 483	$ 356
Current portion of capital lease	7	-	-	7	7
Other current liabilities	816	-	-	816	975
Total current liabilities	1,306			1,306	1,338
Long-term debt	1,400	-	-	1,400	1,400
Capital lease obligation	13	-	-	13	18
Distribution payable - split interest agreements	-	3	-	3	5
Total liabilities	2,719	3	-	2,722	2,760
Net assets:					
Unrestricted net assets					
Board designated reserve fund	30,232	-	-	30,232	29,249
Undesignated	192,235	-	-	192,235	208,701
Total unrestricted net assets	222,467	-	-	222,467	237,951
Temporarily restricted assets	-	6,841	-	6,841	9,818
Permanently restricted assets	-	-	25	25	25
Total net assets	222,467	6,841	25	229,333	247,794
Total liabilities and net assets	$ 225,186	$ 6,844	$ 25	$ 232,055	$ 250,554

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, 2012

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2011
Public support:					
In cash and securities:					
Contributions	$ 5,482	$ 3,000	$ -	$ 8,482	$ 10,681
Business and foundation grants	653	3,690	-	4,343	5,391
Workplace giving campaigns	90	2	-	92	444
Special events	5	113	-	118	177
Total public support from cash and securities	6,230	6,805	-	13,035	16,693
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	285,549	570	-	286,119	388,232
Contributed freight	1,254	38	-	1,292	1,368
Contributed goods - other	86	-	-	86	15
Professional services received	1,104	-	-	1,104	517
Total from donated goods and services	287,993	608	-	288,601	390,131
Total public support	294,224	7,413	-	301,637	406,825
Revenue:					
Investment income	242	14	-	256	327
Gain (loss) on sale of investments	653	-	-	653	(419)
Change in value - split interest agreements	-	-	-	-	(18)
Unrealized gain (loss) on investments	(1,395)	-	-	(1,395)	3,325
Program service fees	-	414	-	414	282
Other income (loss)	(1)	-	-	(1)	-
Total revenue	(501)	428	-	(72)	3,497
Net assets released from restrictions:	10,818	(10,818)		-	-
Total public support and revenue	304,541	(2,977)	-	301,564	410,321
Program services:					
Medical supplies and related expenses	315,461			315,461	307,454
Supporting services:					
Management and General	2,891			2,891	2,574
Fundraising	1,672			1,672	1,455
Total supporting services	4,563	-	-	4,563	4,029
Total expenses	320,025	-	-	320,025	311,483
Change in net assets	(15,484)	(2,977)	-	(18,461)	98,838
Net asset balance beginning of year	$ 237,951	$ 9,818	25	247,794	148,956
Net asset balance end of year	$ 222,467	$ 6,841	$ 25	$ 229,333	$ 247,794

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, 2012

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

(in thousands)

	Program Services		Total Program Services	Supporting Services		Total Program and Supporting Services June 30, 2012	(Memo) Total Program and Supporting Services June 30, 2011
	USA	International		Management and General	Fundraising		
Compensation and related benefits:							
Salaries	$ 840	$ 1,793	$ 2,633	$ 1,217	$ 871	$ 4,721	$ 4,604
Payroll taxes	60	116	176	80	59	315	299
Employee benefits	114	218	332	167	107	606	565
Total compensation and related benefits	1,014	2,127	3,141	1,464	1,037	5,642	5,468
Other expenses							
Pharmaceuticals, medical equipment and supplies distributed - donated	64,182	209,153	273,335	-	-	273,335	272,145
Pharmaceuticals, medical equipment and supplies distributed - procured	227	1,711	1,938	-	-	1,938	2,179
Inventory adjustment (expired pharmaceuticals)	6,131	20,069	26,200	-	-	26,200	20,242
Accounting and legal fees	27	1	28	67	1	96	92
Advertising	-	-	-	20	4	24	10
Bank charges	-	1	1	42	-	43	87
Contract services	195	887	1,082	360	151	1,593	1,489
Contributed services	49	537	586	453	66	1,105	517
Contributed freight	293	998	1,291	-	-	1,291	1,368
Contributed goods	18	35	53	20	13	86	15
Disposal costs (expired pharmaceuticals)	13	45	58	-	-	58	33
Dues and subscriptions	11	36	47	12	14	73	62
Duplicating and printing	1	1	2	28	45	75	102
Equipment and software maintenance	28	60	88	25	40	153	140
Equipment rental	1	23	24	2	2	28	32
Freight and transportation	272	1,278	1,550	-	-	1,550	1,785
Grants and stipends	271	3,818	4,089	-	-	4,089	2,764
Insurance	13	29	42	18	7	66	59
Interest	19	38	57	18	13	88	88
Meetings, conferences, special events	8	18	26	16	14	55	97
Miscellaneous	21	(2)	19	4	-	23	7
Outside computer services	3	6	9	3	37	50	58
Postage and mailing services	1	4	5	13	27	45	42
Rent and other occupancy	94	444	538	22	5	565	763
Supplies	47	159	206	14	19	239	356
Taxes, licenses and fees	-	-	-	21	-	21	35
Training and education	2	21	23	2	-	25	19
Travel and automobile	45	197	242	41	14	297	452
Utilities and telephone	29	91	120	31	18	169	210
Web hosting	58	115	173	56	41	270	258
Total expenses before depreciation	73,074	241,900	314,974	2,752	1,566	319,292	310,971
Depreciation and amortization	157	330	487	139	106	732	512
Total functional expenses - June 30, 2012	$ 73,231	$ 242,230	$ 315,461	$ 2,891	$ 1,672	$ 320,024	
Total functional expenses - June 30, 2011	$ 49,033	$ 258,422	$ 307,454	$ 2,574	$ 1,455		$ 311,483

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 STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

(in thousands)

	Total June 30, 2012	(Memo) Total June 30, 2011
Cash flows from operating activities:		
Cash collected from public support and other program services	$ 13,768	$ 16,997
Cash paid for goods and services	(17,976)	(16,411)
Dividend and interest income	256	327
Other income (loss)	(1)	-
Net cash (used) provided by operating activities	(3,952)	914
Cash flows from investing activities:		
Purchase of investments	(28,076)	(9,928)
Proceeds from sale of investments	33,990	11,399
Purchase of capital assets	(161)	(1,020)
Unitrust distribution	(2)	(2)
Net cash provided by investing activities	5,752	450
Cash flows from financing activities:		
Net change on capital lease obligation	(5)	18
Net cash (used) provided by financing activities	(5)	18
Net increase in cash and cash equivalents	1,795	1,381
Cash and cash equivalents - beginning of year	8,690	$ 7,309
Cash and cash equivalents - end of year	$ 10,484	$ 8,690

Reconciliation of change in net assets to net cash provided (used) by operating activities

	Total June 30, 2012	(Memo) Total June 30, 2011
Change in net assets	$ (18,461)	$ 98,838
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	732	512
Change in inventory	13,306	(95,590)
Change in receivables	319	22
Change in prepaid expenses and other assets	(541)	16
Change in accounts payable and accrued expenses	(32)	26
Loss on exchange rate	(19)	-
Loss on fixed assets disposed of	-	(5)
Gain (loss) on other assets disposed of	2	-
Realized gain (loss) on sale of investments	(653)	419
Unrealized gain (loss) on investments	1,395	(3,325)
Net cash (used) provided by operating activities	$ (3,952)	$ 914

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

Note 1: Organization

Direct Relief International (Direct Relief) 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.

Direct Relief'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, Direct Relief'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, Direct Relief 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, Direct Relief's medical inventories are available on an as-needed basis in the event of a health emergency.

Direct Relief's financial support is derived through contributions from individuals, corporations and foundations. The medical material resources provided as part of Direct Relief'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 Direct Relief in October 2006. The Foundation is organized to operate solely and exclusively to support, benefit, or carry out the purposes of Direct Relief. 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 Direct Relief. The Foundation began operations on April 1, 2007. The Foundation's financial statements are combined with Direct Relief's financial statements.

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

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The combined and consolidated financial statements include the accounts of Direct Relief, Direct Relief-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, 2011.

The Organization has also included separate financial statements for Direct Relief 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 $10.5 million as of June 30, 2012.

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, 2012, were composed of the following (in thousands):

Pharmaceuticals	$ 186,992
Medical supplies/kits	5,133
Equipment	1,269
Total inventories	$ 193,394

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 U.S. Food and Drug Administration approved pharmaceuticals, branded and generic, are recorded at estimated wholesale value on the date received, based on the Wholesale Acquisition Cost (WAC) as published in the Thomson Reuters RedBook©. The RedBook is an industry recognized drug and pricing reference guide for pharmaceuticals in the United States. WAC is the standard used by many U.S. states as the Federal Upper Limit pricing for drugs purchased under the Medicaid program. If the wholesale value is not available in the RedBook, the wholesale value of the contribution is based on other appropriate Internet pricing sources. For non-FDA-approved pharmaceuticals, for example, products manufactured for use in non-U.S. markets, the organization uses independent pricing guides to determine the fair market value of the particular manufacturer's specific formulation. The sources of such pricing information vary, but relevant information may include the price paid by wholesalers or other third-party buyers, a price negotiated by an organization (such as the Clinton Foundation) for a particular drug, or other such reasonable basis. Contributions of medical equipment and supplies are also recorded at estimated wholesale value based upon appropriate pricing information on the specific item listed for sale in trade publications, through online Internet pricing guides, and through its own procurement history when purchasing. Such valuations typically are substantially lower than published retail prices.

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 $88 thousand for informational materials that included fundraising appeals. The Organization allocated $49 thousand to administration expense and $39 thousand to fundraising expense.

Note 3: Investments

Investments are presented in the financial statements at fair market value. Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the balance sheet date. These amounts are not necessarily indicative of the amounts the Organization could realize in a current market exchange. Realized and unrealized gains and losses on investments are reflected in the Statement of Activities. At June 30, 2012, investments consisted of the following (in thousands):

	2012	
	Cost	Fair Value
Equity securities	$ 10,831	$ 10,412
Fixed income securities	6,656	6,705
Alternative investments	4,793	3,632
Total investments	$ 22,280	$ 20,749

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	$ 22,280	$ 20,749	$ (1,531)
Balance at the beginning of the year	27,524	27,388	(136)
Net change in unrealized loss on investments			$ (1,395)

The Organization had investment expenses of $49 thousand during the year ended June 30, 2012.

The following summarizes the investment return included as unrestricted revenue and temporarily restricted revenue on the combined board-restricted and donor-restricted funds in the statement of activities for 2012 (in thousands):

Investment and dividend income	$ 256
Realized gain on value of securities	653
Unrealized loss on value of securities	(1,395)
Investment fees	(62)
Total investment return	$ (548)

Note 4: Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Organization to sell an asset or be paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including general partner estimates and recent third-party appraisals.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair market valuation of Level 3 securities is based on information provided by fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted. Other factors may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Because of the inherent uncertainty of valuations, however, those estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material. Independent appraisals of significant real estate held for investment are conducted at frequencies as determined by the fund manager for valuation purposes. Level 3 securities can include hedge funds, private equity, special purpose vehicles, real assets, and partnerships.

The Organization's investments were 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. In April 2012, the Organization began to transition its investments to another investment firm, SEI Private Trust Company (SEI).

Fair market valuation of the investments is based on information provided by the investment managers of Commonfund and SEI, 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 source 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, 2012, 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	$ 10,412	$ 9,011	$ 1,401	$ -
Fixed income securities	6,705	835	5,870	-
Alternative investments	3,632	45	788	2,799
Split interest agreements	666	-	-	666
Total	$ 21,415	$ 9,891	$ 8,059	$ 3,465

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, 2011	$ 6	$ 5	$ 2	$ 5,188	$ 138	$ 5,339
Total gains and losses (realized/unrealized)	(1)	-	-	(86)	-	(87)
Purchases, redemptions, fees and settlements	2	2	(2)	(3,729)	528	(3,199)
Transfers in and/or out of level 3	(7)	(7)	-	1,426	-	1,412
June 30, 2012	$ -	$ -	$ -	$ 2,799	$ 666	$ 3,465

Note 5: Property and Equipment

The Organization's investment in property and equipment as of June 30, 2012, consisted of the following (in thousands):

Land	$ 1,364
Office and warehouse	3,275
Vehicles, equipment and software	4,978
Total	9,617
Less: Accumulated Depreciation	(3,318)
Net Property and Equipment	$ 6,299

Depreciation and amortization expense for the year ended June 30, 2012 was $732 thousand.

Note 6: Debt

The Organization's debt as of June 30, 2012, 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, 2012, the Organization had future minimum payments as follows for the years ending June 30 (in thousands):

2013	$ 166
2014	285
2015	285
2016	285
2017	285
Thereafter	94
Total	$ 1,400

Note 7: Net Assets

Unrestricted net assets consisted of the following at June 30, 2012 (in thousands):

Designated by the Board of Directors for:	
Operating reserves	$ 30,232
Undesignated	192,235
Total unrestricted net assets	$ 222,467

Temporarily restricted net assets at June 30, 2012 (in thousands):

Use restricted for the following purposes:	
Japan earthquake relief	$ 1,879
Haiti earthquake relief	1,605
Program–specific grants	1,303
Country–specific assistance	127
Determine Test Kit procurement	727
Other activities	477
Subtotal use restricted net assets	$ 6,118
Time restricted, pending receipt of funds	
Bequests receivable	$ 60
Split interest agreements	663
Subtotal time restricted net assets	$ 723
Total temporarily restricted net assets	$ 6,841

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.

Fiscal year ended June 30, 2012 endowment net asset composition by type of fund is (in thousands):

	Unrestricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 25	$ 25
Board-restricted (BRIF)	30,232	-	30,232
Total endowment funds	$ 30,232	$ 25	$ 30,257

Changes in the endowment net assets for the year ended June 30, 2012 (in thousands) are:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 29,249	$ 25	$ 29,274
Net investment return (investment income, realized and unrealized gains and losses)	(498)	-	(498)
Contributions	1,994	-	1,994
Appropriation of endowment assets for expenditure	(513)	-	(513)
Endowment net assets, end of year	$ 30,232	$ 25	$ 30,257

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 year ended June 30, 2012, $451 thousand was distributed, and an additional $2.469 million was approved for distribution, to cover fundraising, administration and capital 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 totally vested in all contributions to the Plan. The Organization matches every dollar contributed, up to five percent of the employee's annual compensation, subject to Board approval.

The Organization contributed $188 thousand to the Plan amounted to for the year ended June 30, 2012.

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 year ended June 30, 2012, 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 year ended June 30, 2012, the Organization was at risk for $9.4 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 50% of its current year cash contributions from ten single donors and 83% 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 lease of the facility for the year ended June 30, 2012, totaled $340 thousand.

As of June 30, 2012, the Organization had future minimum payments for the storage space lease and common area expenses of $173 thousand for the fiscal year ending June 30, 2013.

The Organization also leases four 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 as debt. Total payments on such leases for the year ended June 30, 2012, were $7 thousand.

The cost of assets under capital leases totaled $28 thousand and accumulated depreciation of these assets was $9 thousand as of June 30, 2012. Depreciation expense was $6 thousand for the year ending June 30, 2012. Amortization of assets held under capital lease is included with depreciation expense.

As of June 30, 2012, the Organization had future minimum payments under capital leases of $23 thousand over the next four years which includes $3 thousand for interest.

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, 2012, 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, state and local tax examinations by tax authorities for years before 2008.

Note 15: Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 14, 2012, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 1	$ 366	$ -	$ 367
Investments	4	456	-	460
Contributions and other receivables	3,760	-	-	3,760
Inventories	193,394	-	-	193,394
Prepaid expenses	202	-	-	202
Total current assets	197,361	823	-	198,183
Property and equipment - net of accumulated depreciation of $3,318	6,299	-	-	6,299
Bequest receivable	-	-	-	-
Other assets	-	-	-	-
Total assets	$ 203,660	$ 823	$ -	$ 204,483
Liabilities and Net Assets				
Liabilities:				
Current liabilities				
Accounts payable	$ 483	$ -	$ -	$ 483
Current portion of capital lease	7	-	-	7
Other current liabilities	816	-	-	816
Total current liabilities	1,306			1,306
Long-term debt	1,400	-	-	1,400
Capital lease obligation	13	-	-	13
Distribution payable - split interest agreements	-	3	-	3
Total liabilities	2,719	3	-	2,722
Net assets:				
Unrestricted net assets				
Board designated reserve fund	-	-	-	-
Undesignated	200,941	-	-	200,941
Total unrestricted net assets	200,941	-	-	200,941
Temporarily restricted assets	-	819	-	819
Permanently restricted assets	-	-	-	-
Total net assets	200,941	819	-	201,760
Total liabilities and net assets	$ 203,660	$ 823	$ -	$ 204,483

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
In cash and securities:				
Contributions	$ 5,482	$ 3,000	$ -	$ 8,482
Business and foundation grants	653	3,691	-	4,344
Workplace giving campaigns	90	2	-	92
Special events	5	113	-	118
Total public support from cash and securities	6,230	6,806	-	13,036
From donated goods and services:				
Pharmaceuticals, medical supplies and equipment	285,549	570	-	286,119
Contributed freight	1,254	38	-	1,292
Contributed goods - other	86	-	-	86
Professional services received	1,104	-	-	1,104
Total from donated goods and services	287,993	608	-	288,601
Total public support	294,223	7,414	-	301,637
Revenue:				
Investment income	(4)	14	-	10
Gain/(loss) on sale of investments	2	-	-	2
Change in value - split interest agreements	-	-	-	-
Unrealized gain/(loss) on investments	-	-	-	-
Program service fees	-	414	-	414
Other income/(loss)	(1)	-	-	(1)
Total revenue	(3)	428	-	425
Net assets released from restrictions:	9,818	(9,818)	-	-
Total public support and revenue	304,038	(1,976)	-	302,062
Program services:				
Medical supplies and related expenses	315,461			315,461
Supporting services:				
Management and General	2,829			2,829
Fundraising	1,672			1,672
Total supporting services	4,501	-	-	4,501
Total expenses	319,962	-	-	319,962
Change in net assets	$ (15,924)	$ (1,976)	$ -	$ (17,900)

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

(in thousands)

	Program Services			Supporting Services		
	USA	International	Total Program Services	Management and General	Fundraising	Total Program and Supporting Services
Compensation and related benefits:						
Salaries	$ 840	$ 1,793	$ 2,633	$ 1,217	$ 871	$ 4,721
Payroll taxes	60	116	176	80	59	315
Employee benefits	114	218	332	167	107	606
Total compensation and related benefits	1,014	2,127	3,141	1,464	1,037	5,642
Other expenses						
Pharmaceuticals, medical equipment and supplies distributed - donated	64,182	209,153	273,335	-	-	273,335
Pharmaceuticals, medical equipment and supplies distributed - procured	227	1,711	1,938	-	-	1,938
Inventory adjustment (expired pharmaceuticals)	6,131	20,069	26,200	-	-	26,200
Accounting and legal fees	27	1	28	54	1	83
Advertising	-	-	-	20	4	24
Bank charges	-	1	1	42	-	43
Contract services	195	887	1,082	311	151	1,544
Contributed services	49	537	586	453	66	1,105
Contributed freight	293	998	1,291	-	-	1,291
Contributed goods	18	35	53	20	13	86
Disposal costs (expired pharmaceuticals)	13	45	58	-	-	58
Dues and subscriptions	11	36	47	12	14	73
Duplicating and printing	1	1	2	28	45	75
Equipment and software maintenance	28	60	88	25	40	153
Equipment rental	1	23	24	2	2	28
Freight and transportation	272	1,278	1,550	-	-	1,550
Grants and stipends	271	3,818	4,089	-	-	4,089
Insurance	13	29	42	18	7	66
Interest	19	38	57	18	13	88
Meetings, conferences, special events	8	18	26	16	14	55
Miscellaneous	21	(2)	19	4	-	23
Outside computer services	3	6	9	3	37	50
Postage and mailing services	1	4	5	13	27	45
Rent and other occupancy	94	444	538	22	5	565
Supplies	47	159	206	14	19	239
Taxes, licenses and fees	-	-	-	21	-	21
Training and education	2	21	23	2	-	25
Travel and automobile	45	197	242	41	14	297
Utilities and telephone	29	91	120	31	18	169
Web hosting	58	115	173	56	41	270
Total expenses before depreciation	73,074	241,900	314,974	2,690	1,566	319,230
Depreciation and amortization	157	330	487	139	106	732
Total functional expenses	$ 73,231	$ 242,230	$ 315,461	$ 2,829	$ 1,672	$ 319,962

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