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

COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

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

June 30, 2013

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Direct Relief, 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, Direct Relief Foundation and Direct Relief International (South Africa) (non-profit corporations) as of June 30, 2013, and the related combined and consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Direct Relief, Direct Relief Foundation and Direct Relief International (South Africa) as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matter

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 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.

Report on Summarized Comparative Information

We have previously audited the Direct Relief, Direct Relief Foundation and Direct Relief International (South Africa) June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated November 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

November 4, 2013

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

COMBINED AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2012
Assets					
Current assets:					
Cash and cash equivalents	$ 466	$ 956	$ -	$ 1,422	$ 10,484
Investments	27,125	3,561	25	30,711	20,749
Contributions and other receivables	63	672	-	735	201
Inventories	195,388	-	-	195,388	193,394
Prepaid expenses	501	-	-	501	202
Total current assets	223,543	5,189	25	228,757	225,030
Property and equipment - net of accumulated depreciation of $4,225,541	6,807	-	-	6,807	6,299
Bequest receivable	-	83	-	83	60
Other assets	-	128	-	128	666
Total assets	$ 230,350	$ 5,400	$ 25	$ 235,775	$ 232,055
Liabilities and Net Assets					
Liabilities:					
Current liabilities					
Accounts payable	$ 491	$ -	$ -	$ 491	$ 483
Current portion of long term debt	41	-	-	41	-
Current portion of capital lease	10	-	-	10	7
Other current liabilities	1,117	-	-	1,117	816
Total current liabilities	1,659			1,659	1,306
Long-term debt	1,336	-	-	1,336	1,400
Capital lease obligation	8	-	-	8	13
Deferred compensation	44	-	-	44	-
Distribution payable - split-interest agreements	-	16	-	16	3
Total liabilities	3,047	16	-	3,064	2,722
Net assets:					
Unrestricted net assets					
Board designated reserve fund	30,542	-	-	30,542	30,232
Undesignated	196,761	-	-	196,761	192,235
Total unrestricted net assets	227,303	-	-	227,303	222,467
Temporarily restricted assets	-	5,384	-	5,384	6,841
Permanently restricted assets	-	-	25	25	25
Total net assets	227,303	5,384	25	232,711	229,333
Total liabilities and net assets	$ 230,350	$ 5,400	$ 25	$ 235,775	$ 232,055

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

DIRECT RELIEF, 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, 2013

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Memo) Total June 30, 2012
Public support:					
In cash and securities:					
Contributions	$ 4,358	$ 2,728	$ -	$ 7,086	$ 8,482
Business and foundation grants	925	5,403	-	6,328	4,344
Workplace giving campaigns	112	6	-	118	92
Special events	7	407	-	414	118
Total public support from cash and securities	5,402	8,544	-	13,946	13,035
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	372,740	-	-	372,740	286,120
Contributed freight	1,380	-	-	1,380	1,292
Contributed goods - other	1,282	9	-	1,291	86
Professional services received	2,607	-	-	2,607	1,104
Total from donated goods and services	378,009	9	-	378,018	288,601
Total public support	383,411	8,553	-	391,964	301,636
Revenue:					
Investment income	559	1	-	560	256
Gain (loss) on sale of investments	(961)	-	-	(961)	653
Unrealized gain (loss) on investments	4,119	-	-	4,119	(1,395)
Program service fees	-	435	-	435	414
Total revenue	3,717	436	-	4,153	(72)
Net assets released from restrictions:	10,447	(10,447)		-	-
Total public support and revenue	397,575	(1,458)	-	396,117	301,564
Program services:					
Medical supplies and related expenses	388,913	-	-	388,913	315,461
Supporting services:					
Administration	2,297	-	-	2,297	2,891
Fundraising	1,529	-	-	1,529	1,672
Total supporting services	3,826	-	-	3,826	4,563
Total expenses	392,739	-	-	392,739	320,024
Change in net assets	4,836	(1,458)	-	3,378	(18,461)
Net asset balance beginning of year	222,467	6,841	25	229,333	247,794
Net asset balance end of year	$ 227,303	$ 5,384	$ 25	$ 232,711	$ 229,333

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

DIRECT RELIEF, 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, 2013

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

(in thousands)

	Program Services		Total	Supporting Services		Total Program	(Memo) Total Program
	USA	International	Program Services	Administration	Fundraising	and Supporting Services June 30, 2013	and Supporting Services June 30, 2012
Compensation and related benefits:							
Salaries	$ 947	$ 1,773	$ 2,720	$ 1,082	$ 913	$ 4,715	$ 4,721
Payroll taxes	64	116	180	68	58	306	315
Employee benefits	137	247	384	203	126	713	606
Total compensation and related benefits	1,148	2,136	3,284	1,353	1,097	5,734	5,642
Other expenses							
Pharmaceuticals, medical equipment and supplies distributed - donated	60,006	280,150	340,156	-	-	340,156	273,335
Pharmaceuticals, medical equipment and	-	-		-	-		-
supplies distributed - procured	151	1,549	1,700	-	-	1,700	1,938
Inventory adjustment (expired pharmaceuticals)	6,884	23,687	30,571	-	-	30,571	26,200
Accounting and legal fees	1	2	3	52	1	56	96
Advertising	-	-	-	92	4	96	25
Bank charges	-	1	1	59	-	60	43
Contract services	330	665	995	268	53	1,316	1,593
Contributed services	991	1,272	2,263	109	10	2,382	1,104
Contributed freight	311	1,069	1,380	-	-	1,380	1,292
Contributed goods	3	13	16	1	1	18	86
Disposal costs (expired pharmaceuticals)	12	40	52	-	-	52	58
Dues and subscriptions	13	41	54	17	22	93	72
Duplicating and printing	2	1	3	51	34	88	75
Equipment and software maintenance	39	88	127	12	23	162	152
Equipment rental	2	16	18	1	2	22	28
Freight and transportation	174	1,212	1,386	-	-	1,386	1,550
Grants and stipends	1,997	2,597	4,594	-	-	4,594	4,088
Insurance	10	24	34	20	5	59	66
Interest	12	25	37	12	10	59	88
Meetings, conferences, special events	32	13	45	11	67	123	55
Miscellaneous	23	(8)	15	(7)	-	8	24
Outside computer services	4	7	11	2	35	48	50
Postage and mailing services	3	4	7	3	25	35	45
Rent and other occupancy	94	467	561	16	4	581	565
Supplies	76	160	236	23	28	287	239
Taxes, licenses and fees	-	-	-	7	-	7	21
Training and education	2	3	5	2	1	8	25
Travel and automobile	80	190	270	13	26	309	297
Utilities and telephone	28	85	113	30	20	163	169
Web hosting	81	160	241	29	3	273	270
Total expenses before depreciation	72,508	315,669	388,177	2,176	1,470	391,823	319,292
Depreciation and amortization	242	494	736	121	59	916	732
Total functional expenses - June 30, 2013	$ 72,750	$ 316,163	$ 388,913	$ 2,297	$ 1,529	$ 392,739	
Total functional expenses - June 30, 2012	$ 73,231	$ 242,230	$ 315,461	$ 2,891	$ 1,672		$ 320,024

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

DIRECT RELIEF, 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, 2013

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

(in thousands)

	Total June 30, 2013	(Memo) Total June 30, 2012
Cash flows from operating activities:		
Cash collected from public support and other program services	$ 13,824	$ 13,768
Cash paid for goods and services	(16,440)	(17,888)
Interest paid	(59)	(88)
Dividend and interest income	559	256
Other income (loss)	-	(1)
Net cash used by operating activities	(2,116)	(3,952)
Cash flows from investing activities:		
Purchase of investments	(25,076)	(28,076)
Proceeds from sale of investments	18,292	33,990
Purchase of capital assets	(151)	(161)
Unitrust accrual net of distribution	13	(2)
Net cash provided (used) for investing activities	(6,922)	5,752
Cash flows from financing activities:		
Net payments on long term debt	(23)	-
Net payments on capital lease obligation	(1)	(5)
Net cash used for financing activities	(24)	(5)
Net increase (decrease) in cash and cash equivalents	(9,062)	1,794
Cash and cash equivalents - beginning of year	10,484	8,690
Cash and cash equivalents - end of year	$ 1,422	$ 10,484

	Total June 30, 2013	(Memo) Total June 30, 2012
Reconciliation of change in net assets to net cash used by operating activities		
Change in net assets	$ 3,378	$ (18,461)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	916	732
Change in inventory	(1,996)	13,306
Change in receivables	(557)	319
Change in prepaid expenses and other assets	464	(541)
Change in accounts payable and accrued expenses	309	(32)
Change in non-qualified deferred compensation accrual	44	-
Donated services pledged for next fiscal year	(225)	-
Donated software capitalized	(1,273)	-
Loss on exchange rate	(18)	(19)
Gain (loss) on other assets disposed of	-	2
Realized gain (loss) on sale of investments	961	(653)
Unrealized gain (loss) on investments	(4,119)	1,395
Net cash used by operating activities	$ (2,116)	$ (3,952)

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

Note 1: Organization

Direct Relief (formerly known as Direct Relief International) 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 or emergency situations by mobilizing and providing essential medical resources needed for their care.

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. 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, the Foundation and Direct Relief-SA (collectively, the Organization). 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 year ended June 30, 2012.

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 (GAAP) 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 $1.4 million as of June 30, 2013.

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, 2013, were composed of the following (in thousands):

Pharmaceuticals	$ 189,963
Medical supplies/kits	4,419
Equipment	1,006
Total inventories	$ 195,388

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 $62 thousand for informational materials that included fundraising appeals. The Organization allocated $49 thousand to administration expense and $13 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, 2013, investments consisted of the following (in thousands):

	2013	
	Cost	Fair Value
Equity securities	$ 13,778	$ 15,375
Fixed income securities	7,144	7,068
Alternative investments	7,200	8,268
Total investments	$ 28,122	$ 30,711

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

	Cost	Fair Value	Excess/(Deficit) of Fair Value Over Cost
Balance at end of the year	$ 28,122	$ 30,711	$ 2,589
Balance at the beginning of the year	22,280	20,750	(1,530)
Net change in unrealized gain (loss) on investments			$ 4,119

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 2013 (in thousands):

Investment and dividend income	$ 560
Realized loss on value of securities	(961)
Unrealized gain on value of securities	4,119
Investment fees	(119)
Total investment return	$ 3,599

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 SEI Private Trust Company (SEI), a leading investment firm, in line with investment guidelines approved by the Board of Directors. These guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices.

Fair market valuation of the investments is based on information provided by the investment managers of 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 SEI 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 SEI’s 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 SEI 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, SEI 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, 2013, 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	$ 15,375	$ 11,166	$ 4,209	$ -
Fixed income securities	7,068	1,181	5,746	141
Alternative investments	8,268	561	2,576	5,131
Split-interest agreements	128	-	-	128
Total	$ 30,839	$ 12,908	$ 12,531	$ 5,400

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

	Equity securities	Fixed income securities	Alternative investments	Receivables	Total
July 1, 2012	$ -	$ -	$ 2,799	$ 666	$ 3,465
Total gains and losses (realized/unrealized)	-	-	490	-	490
Purchases, redemptions, fees and settlements	–	4	2,600	(538)	2,066
Transfers in and/or out of level 3	-	137	(758)	-	(621)
June 30, 2013	$ -	$ 141	$ 5,131	$ 128	$ 5,400

Note 5: Property and Equipment

The Organization's investment in property and equipment as of June 30, 2013, consisted of the following (in thousands):

Land	$ 1,364
Office and warehouse	3,296
Vehicles, equipment and software	6,372
Total	11,032
Less: Accumulated Depreciation	(4,225)
Net Property and Equipment	$ 6,807

Depreciation and amortization expense for the year ended June 30, 2013 was $916 thousand.

Note 6: Debt

The Organization's debt as of June 30, 2013, consists of a mortgage note payable, requiring monthly principal and interest payments of $6,400 at 2.63% per annum through November 20, 2017. The loan matures on November 20, 2017 and a balloon payment of $1.2 million is due at that time. The mortgage note is secured by the Organization's warehouse facility.

As of June 30, 2013, the Organization had future minimum payments as follows for the years ending June 30 (in thousands):

2014	$ 41
2015	42
2016	43
2017	44
2018	1,207
Total	$ 1,377

Note 7: Net Assets

Unrestricted net assets consisted of the following at June 30, 2013 (in thousands):

Designated by the Board of Directors for:	
Operating reserves	$ 30,542
Undesignated	196,761
Total unrestricted net assets	$ 227,303

Temporarily restricted net assets at June 30, 2013 (in thousands):

Use restricted for the following purposes:	
Program–specific grants	$ 1,406
Determine Test Kit procurement	975
Japan earthquake relief	709
Haiti earthquake relief	536
Hurricane Sandy relief	278
US Tornado/Storm relief	265
Country–specific assistance	31
Other activities	135
Subtotal use restricted net assets	$ 4,335
Time restricted, pending receipt of funds	
Bequests receivable	$ 249
Split-interest agreements	128
Pledged revenue	672
Subtotal time restricted net assets	$ 1,049
Total temporarily restricted net assets	$ 5,384

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.

For the year ended June 30, 2013 endowment net asset composition by type of fund is (in thousands):

	Unrestricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 25	$ 25
Board-restricted (BRIF)	30,542	-	30,542
Total endowment funds	$ 30,542	$ 25	$ 30,567

Changes in the endowment net assets for the year ended June 30, 2013 (in thousands) are:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 30,232	$ 25	$ 30,257
Net investment return (investment income, realized and unrealized gains and losses)	3,703	-	3,703
Contributions	864	-	864
Appropriation of endowment assets for expenditure	(4,257)	-	(4,257)
Endowment net assets, end of year	$ 30,542	$ 25	$ 30,567

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, 2013, $4.1 million was distributed, and an additional $1.768 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 $183 thousand to the Plan for the year ended June 30, 2013.

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, 2013, was $44 thousand, which includes the current years’ expense and the projected future liability.

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, 2013, the Organization was at risk for $2.5 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 35% of its current year cash contributions from ten donors and 86% 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 February 28, 2016. Payments for rent and common area expenses for the lease of the facility for the year ended June 30, 2013, totaled $346 thousand.

As of June 30, 2013, the Organization had future minimum payments for the storage space lease and common area expenses as follows for the years ending June 30 (in thousands).

2014	$ 346
2015	346
2016	231
Total	$ 923

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, 2013, were $8 thousand.

The cost of assets under capital leases totaled $28 thousand and accumulated depreciation of these assets was $15 thousand as of June 30, 2013. Capital lease acquisitions totaled $5 thousand, and depreciation expense was $6 thousand, for the year ended June 30, 2013. Amortization of assets held under capital lease is included with depreciation expense.

As of June 30, 2013, the Organization had future minimum payments under capital leases of $20 thousand over the next three years which includes $2 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 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, 2013, 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 2009.

Note 15: Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 4, 2013, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

DIRECT RELIEF
(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

(in thousands)

	Unrestricted	Temporarily Restricted	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 466	$ 943	$ 1,409
Investments	4	-	4
Contributions and other receivables	51	672	723
Receivable - Foundation	-	1,768	1,768
Inventories	195,388	-	195,388
Prepaid expenses	501	-	501
Total current assets	196,410	3,383	199,793
Property and equipment - net of accumulated depreciation of $4,225,541	6,807	-	6,807
Total assets	$ 203,217	$ 3,383	$ 206,600
Liabilities and Net Assets			
Liabilities:			
Current liabilities			
Accounts payable	$ 491	$ -	$ 491
Current portion of long term debt	41	-	41
Current portion of capital lease	10	-	10
Other current liabilities	1,117	-	1,117
Total current liabilities	1,659		1,659
Long-term debt	1,336	-	1,336
Capital lease obligation	8	-	8
Deferred compensation	44	-	44
Distribution payable - split-interest agreements	-	16	16
Total liabilities	3,047	16	3,063
Net assets:			
Unrestricted net assets			
Undesignated	200,169	-	200,169
Total unrestricted net assets	200,169	-	200,169
Temporarily restricted assets	-	3,367	3,367
Total net assets	200,169	3,367	203,537
Total liabilities and net assets	$ 203,217	$ 3,383	$ 206,600

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

DIRECT RELIEF
(A NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

(in thousands)

	Unrestricted	Temporarily Restricted	Total
Public support:			
In cash and securities:			
Contributions	$ 4,358	$ 2,728	$ 7,086
Business and foundation grants	925	5,403	6,328
Workplace giving campaigns	112	6	118
Special events	7	407	414
Total public support from cash and securities	5,402	8,544	13,946
From donated goods and services:			
Pharmaceuticals, medical supplies and equipment	372,740	-	372,740
Contributed freight	1,380	-	1,380
Contributed goods - other	1,282	9	1,291
Professional services received	2,607	-	2,607
Total from donated goods and services	378,009	9	378,018
Total public support	383,411	8,553	391,964
Revenue:			
Investment income	-	1	1
Program service fees	-	435	435
Total revenue	-	436	436
Net assets released from restrictions:	10,447	(10,447)	-
Total public support and revenue	393,858	(1,458)	392,400
Program services:			
Medical supplies and related expenses	388,913	-	388,913
Supporting services:	-		
Administration	2,169	-	2,169
Fundraising	1,529	-	1,529
Total supporting services	3,698	-	3,698
Total expenses	392,611	-	392,611
Change in net assets	$ 1,247	$ (1,458)	$ (211)

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

DIRECT RELIEF
(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

(in thousands)

	Program Services		Total Program Services	Supporting Services		Total Program and Supporting Services June 30, 2013
	USA	International		Administration	Fundraising	
Compensation and related benefits:						
Salaries	$ 947	$ 1,773	$ 2,720	$ 1,082	$ 913	$ 4,715
Payroll taxes	64	116	180	68	58	306
Employee benefits	137	247	384	203	126	713
Total compensation and related benefits	1,148	2,136	3,284	1,353	1,097	5,734
Other expenses						
Pharmaceuticals, medical equipment and supplies distributed - donated	60,006	280,150	340,156	-	-	340,156
Pharmaceuticals, medical equipment and supplies distributed - procured	151	1,549	1,700	-	-	1,700
Inventory adjustment (expired pharmaceuticals)	6,884	23,687	30,571	-	-	30,571
Accounting and legal fees	1	2	3	42	1	46
Advertising	-	-	-	92	4	96
Bank charges	-	1	1	59	-	60
Contract services	330	665	995	150	53	1,198
Contributed services	991	1,272	2,263	109	10	2,382
Contributed freight	311	1,069	1,380	-	-	1,380
Contributed goods	3	13	16	1	1	18
Disposal costs (expired pharmaceuticals)	12	40	52	-	-	52
Dues and subscriptions	13	41	54	17	22	93
Duplicating and printing	2	1	3	51	34	88
Equipment and software maintenance	39	88	127	12	23	162
Equipment rental	2	16	18	1	2	22
Freight and transportation	174	1,212	1,386	-	-	1,386
Grants and stipends	1,997	2,597	4,594	-	-	4,594
Insurance	10	24	34	20	5	59
Interest	12	25	37	12	10	59
Meetings, conferences, special events	32	13	45	11	67	123
Miscellaneous	23	(8)	15	(7)	-	8
Outside computer services	4	7	11	2	35	48
Postage and mailing services	3	4	7	3	25	35
Rent and other occupancy	94	467	561	16	4	581
Supplies	76	160	236	23	28	287
Taxes, licenses and fees	-	-	-	7	-	7
Training and education	2	3	5	2	1	8
Travel and automobile	80	190	270	13	26	309
Utilities and telephone	28	85	113	30	20	163
Web hosting	81	160	241	29	3	273
Total expenses before depreciation	72,508	315,669	388,177	2,048	1,470	391,695
Depreciation and amortization	242	494	736	121	59	916
Total functional expenses - June 30, 2013	$ 72,750	$ 316,163	$ 388,913	$ 2,169	$ 1,529	$ 392,611

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