

**DIRECT RELIEF INTERNATIONAL
AND
DIRECT RELIEF FOUNDATION
COMBINED FINANCIAL STATEMENTS
June 30, 2008**

**DIRECT RELIEF INTERNATIONAL AND
DIRECT RELIEF FOUNDATION**

June 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

509 E. Montecito Street 2nd Floor, Santa Barbara, CA 93103, (805) 962-9175, Fax: (805) 962-8925, www.mcgowan.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Direct Relief International and Direct Relief Foundation
Santa Barbara, California

We have audited the accompanying combined statement of financial position of Direct Relief International and Direct Relief Foundation (non-profit corporations) as of June 30, 2008, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the three months then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International and Direct Relief Foundation as of June 30, 2008, and the changes in net assets and cash flows for the three months then ended in conformity with accounting principles generally accepted in the United States of America.

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January 26, 2009

**DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION
(NON-PROFIT CORPORATIONS)**

**COMBINED STATEMENT OF FINANCIAL POSITION
June 30, 2008**

(rounded in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 255	\$ 3,021	\$ -	\$ 3,276
Investments	42,910	-	25	42,935
Contributions and other receivables	262	-	-	262
Inventories	47,749	-	-	47,749
Prepaid expenses	209	-	-	209
Total current assets	91,386	3,021	25	94,432
Property and equipment - net of accumulated depreciation of \$1,067	5,245	-	-	5,245
Contributions receivable from:				
Remainder unitrusts	-	301	-	301
Other assets	4	-	-	4
Total assets	\$ 96,635	\$ 3,322	\$ 25	\$ 99,983
 Liabilities and Net Assets				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 169	\$ -	\$ -	\$ 169
Current portion of capital lease	5	-	-	5
Other current liabilities	454	-	-	454
Total current liabilities	628	-	-	628
Long-term debt	1,400	-	-	1,400
Capital lease obligation	7	-	-	7
Distribution payable - split interest agreements	-	19	-	19
Total liabilities	2,035	19	-	2,054
 Net assets:				
Unrestricted net assets:				
Board designated reserve fund	43,162	-	-	43,162
Undesignated	51,438	-	-	51,438
Total unrestricted net assets	94,601	-	-	94,601
 Temporarily restricted assets:				
Board designated reserve fund		2,619		2,619
Other designated		684		684
Total temporarily restricted net assets	-	3,303	-	3,303
 Permanently restricted assets				
	-	-	25	25
Total net assets	94,601	3,303	25	97,929
 Total liabilities and net assets	\$ 96,635	\$ 3,322	\$ 25	\$ 99,983

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

**DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION
(NON-PROFIT CORPORATIONS)**

**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE THREE MONTHS ENDED JUNE 30, 2008**

(rounded in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue				
Public support:				
In cash and securities:				
Contributions	\$ 709	\$ 1,020	\$ -	\$ 1,730
Corporate and foundation grants	-	80	-	80
Workplace giving campaigns	21	-	-	21
Special events	38	-	-	38
Total public support from cash and securities	<u>768</u>	<u>1,100</u>	<u>-</u>	<u>1,868</u>
From donated goods and services:				
Pharmaceuticals, medical supplies and equipment	27,903	-	-	27,903
Contributed freight	116	-	-	116
Professional services received	53	-	-	53
Total from donated goods and services	<u>28,072</u>	<u>-</u>	<u>-</u>	<u>28,072</u>
Total Public support	28,840	1,100	-	29,940
Revenue:				
Investment income	297	14	-	311
Gain on sale of investments	37	-	-	37
Change in value - split interest agreements	-	(28)	-	(28)
Unrealized gain on investments	188	-	-	188
Program service fees	1	-	-	1
Total revenue	<u>523</u>	<u>(14)</u>	<u>-</u>	<u>509</u>
Net assets released from restrictions:	<u>1,073</u>	<u>(1,073)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	30,435	14	-	30,449
Expenses				
Program services:				
Medical supplies and related expenses	35,912			35,912
Supporting services:				
Administration	601			601
Fundraising	300			300
Total supporting services	<u>901</u>	<u>-</u>	<u>-</u>	<u>901</u>
Total expenses	<u>36,813</u>	<u>-</u>	<u>-</u>	<u>36,813</u>
Decrease in net assets	(6,377)	14	-	(6,363)
Net asset balance at March 31, 2008	<u>100,978</u>	<u>3,289</u>	<u>25</u>	<u>104,292</u>
Net asset balance at June 30, 2008	<u>\$ 94,601</u>	<u>\$ 3,303</u>	<u>\$ 25</u>	<u>\$ 97,929</u>

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

**DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION
(NON-PROFIT CORPORATIONS)**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE THREE MONTHS ENDED JUNE 30, 2008**

(rounded in thousands)

	Program Services			Total Program Services	Supporting Services		Total Program and Supporting Services
	Domestic Services	International Services	International Disaster		Administration	Fundraising	
Compensation and related benefits:							
Salaries	\$ 135	\$ 389	\$ 7	\$ 531	\$ 246	\$ 165	\$ 942
Payroll taxes	9	29	1	39	16	10	65
Employee benefits	15	45	1	61	29	17	107
Total compensation and related benefits	159	463	9	630	291	192	1,113
Other expenses							
Pharmaceuticals, medical equipment and supplies distributed - donated	5,307	23,243	2,610	31,159	-	-	31,159
Pharmaceuticals, medical equipment and supplies distributed - procured	33	72	18	123	-	-	123
Inventory adjustment (expired pharmaceuticals)	-	2,378	-	2,378	-	-	2,378
Accounting and legal fees	-	4	-	5	26	-	32
Advertising	-	-	-	-	1	4	5
Bank charges	2	1	-	3	12	-	15
Contract services	31	137	3	171	179	12	362
Contributed services	1	2	-	3	7	43	54
Contributed freight	20	97	-	116	-	-	116
Disposal costs (expired pharmaceuticals)	1	7	-	8	-	-	8
Dues and subscriptions	8	24	-	32	1	1	34
Duplicating and printing	2	-	-	2	8	3	13
Equipment and Software maintenance	3	13	-	16	5	2	23
Equipment rental	-	2	-	2	1	1	3
Freight and transportation	12	315	57	384	-	-	384
Grants and stipends	30	267	168	465	-	-	465
Insurance	2	8	-	10	2	-	12
Interest	3	16	-	19	2	1	22
Meetings, conferences, special events	2	6	-	8	21	2	31
Outside computer services	-	-	-	-	1	5	6
Postage and mailing services	-	2	1	3	3	4	10
Rent and other occupancy	18	92	-	109	1	-	110
Supplies	9	27	-	35	7	6	49
Training and education	1	1	-	2	3	-	5
Travel and automobile	7	99	5	111	-	13	124
Utilities and telephone	3	22	2	27	6	1	35
Web Hosting	5	22	-	27	11	4	42
Total expenses before depreciation	5,658	27,317	2,873	35,848	588	294	36,730
Depreciation and amortization	12	52	-	63	13	6	82
Total functional expenses - June 30, 2008	\$ 5,669	\$ 27,369	\$ 2,873	\$ 35,912	\$ 601	\$ 300	\$ 36,813

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

**DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION
(NON-PROFIT CORPORATIONS)**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2008**

(rounded in thousands)

	Total
Cash flows from operating activities:	
Cash collected from public support	\$ 2,289
Cash paid for goods and services	(3,262)
Dividend and Interest income	311
Other income	1
	<u>1</u>
Net cash used by operating activities	<u>(661)</u>
Cash flows from investing activities:	
Purchase of investments	(1,253)
Proceeds from sale of investments	1,988
Purchase of capital assets	(395)
Unitrust distributions	(1)
	<u>(1)</u>
Net cash provided by investing activities	<u>340</u>
Cash flows from financing activities:	
Payments on capital lease obligation	(1)
	<u>(1)</u>
Net cash used for financing activities	<u>(1)</u>
Net decrease in cash and cash equivalents	(322)
Cash and cash equivalents - March 31, 2008	<u>3,599</u>
Cash and cash equivalents - June 30, 2008	<u>\$ 3,277</u>
Reconciliation of change in net assets to net cash used by operating activities:	
Change in net assets	\$ (6,363)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	82
Change in inventory	5,634
Change in receivables	421
Change in prepaid expenses and other assets	(33)
Change in accounts payable and accrued expenses	(177)
Realized gain on sale of investments	(37)
Unrealized gain on investments	(188)
	<u>(188)</u>
Net cash used by operating activities	<u>\$ (661)</u>

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

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1: Organization

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

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

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

Note 2: Summary of Significant Accounting Policies

Change in Fiscal Year:

In 2008, the Board of Directors for both Direct Relief International and Direct Relief Foundation (the combination hereinafter referred to as the "Organization") approved changing the Organization's fiscal year from a March 31 year end to a June 30 year end. An interim, or "short", fiscal year is required to bridge the old and new twelve-month reporting periods. The Organization's short fiscal year began April 1, 2008 and ended June 30, 2008. That short year is the subject of these financial statements.

Basis of Presentation:

These notes and accompanying combined financial statements include DRI and the Foundation. All material inter-organizational accounts and transactions have been eliminated. The combined financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

No comparative information has been included since this a short fiscal year.

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:

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

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 \$3.3 million as of June 30, 2008 .

Investments:

Effective April 1, 2007, DRI transferred its separately managed investment fund to the Foundation. This fund accumulates portfolio income and realized gains and losses on security transactions which are available to meet current expenses of the Organization to the extent approved by the Board of Directors. Investments are reported at fair values provided by the fund managers or general partners

Fair Value Measurements of Assets:

Fair values of assets have been measured in accordance with SFAS No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets accessible at the measurement date;
- Level 2 Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 Inputs that are unobservable.

Inputs broadly refer to the assumptions that are used to make valuation decisions, including assumptions about risk.

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

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 a charitable gift annuity and several charitable remainder trusts. The future interests in the gift annuity, unitrust and charitable remainder trusts are recorded as assets and valued at fair value on the date of each gift. Investments in the trust and in the gift annuity 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 cost. Donated inventory is carried at estimated wholesale value as of the date of receipt. Inventory balances as of June 30, 2008, were composed of the following (in thousands):

Pharmaceuticals	\$ 42,056
Medical supplies	3,809
Equipment	1,884
Total inventories	<u>\$ 47,749</u>

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:

<u>Class of property</u>	<u>Estimated useful life</u>
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 period.

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

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

Contributed Materials and Services:

Contributions of pharmaceutical and medical supplies are recorded at estimated wholesale value on the date received, based on published wholesale price indexes for pharmaceuticals and medical supplies, or if not available, based on other Internet pricing sources as applicable. Contributions of medical equipment are recorded at estimated wholesale value based upon wholesale price guides or other Internet pricing sources as applicable.

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.

Income Taxes:

DRI and the Foundation are not-for-profit organizations that are exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and State of California Revenue and Taxation Code Section 23701(d); therefore, no provision for income taxes is required.

Joint Costs:

During the period the Organization incurred joint costs of \$14 thousand for informational materials that included fundraising appeals. The Organization allocated \$11 thousand to administration expense and \$3 thousand to fund raising expense.

Note 3: Investments

The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". This statement requires that nonprofit organizations record investments at fair market value in the statements of financial position. As of June 30, 2008, all the investments were held by the Foundation. Investment holdings as of June 30, 2008, are composed of the following (in thousands):

	2008	
	Cost	Fair Value
Equity securities	\$ 24,475	\$ 24,101
Fixed income securities	8,050	7,770
Commodities	1,442	1,940
Alternative investments	8,814	9,124
Total investments	<u>\$ 42,781</u>	<u>\$ 42,935</u>

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

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

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
Balance at end of the period	\$ 42,781	\$ 42,935	\$ 154
Balance at the beginning of the period	<u>43,480</u>	<u>43,446</u>	<u>(34)</u>
Net change in unrealized gain on Investments			<u>\$ 188</u>

The Organization had investment expenses of \$24 thousand during the three months ended June 30, 2008.

Note 4: Fair Value Measurements

Fair values of assets measured on a recurring basis at June 30, 2008, are as follows:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 24,101	\$ -	\$ 19,669	\$ 4,432
Fixed income securities	7,770	-	5,789	1,981
Commodities	1,940	-	1,662	278
Alternative investments	9,124	-	-	9,124
Contributions receivable	<u>301</u>	<u>-</u>	<u>-</u>	<u>301</u>
Total	<u>\$ 43,236</u>	<u>\$ -</u>	<u>\$ 27,120</u>	<u>\$ 16,116</u>

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

	<u>Equity securities</u>	<u>Fixed income securities</u>	<u>Commodities</u>	<u>Alternative investments</u>	<u>Contributions receivable</u>	<u>Total</u>
April 1, 2008	\$ 4,577	\$ 2,497	\$ 124	\$ 7,469	\$ 559	\$ 15,226
Total gains and losses (realized/unrealized)	39	(42)	7	64	(28)	40
Purchases, redemptions, fees and settlements	(76)	(258)	(77)	1,591	(230)	950
Transfers in and/or out of level 3	<u>(107)</u>	<u>(215)</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>(100)</u>
June 30, 2008	<u>\$ 4,432</u>	<u>\$ 1,981</u>	<u>\$ 278</u>	<u>\$ 9,124</u>	<u>\$ 301</u>	<u>\$ 16,116</u>

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

The amount of total gains and losses for the period ended June 30, 2008, included in net unrestricted net assets attributable to the change in unrealized gains and losses relating to the assets still held at the reporting date were the following (in thousands):

Equity securities	\$ 39
Fixed income securities	(42)
Commodities	7
Alternative investments	34
Contributions receivable	<u>(28)</u>
Total	<u>\$ 10</u>

Gains and losses (realized and unrealized) included in unrestricted net assets for the period are reported in other revenues as follows (in thousands):

Total gains or losses included in unrestricted net assets for the period	\$ 40
Change in unrealized gains or losses relating to assets still held at period end	\$ 10

Note 5: Property and Equipment

The Organization's investment in property and equipment as of June 30, 2008, consisted of the following (in thousands):

Land	\$ 1,364
Office and Warehouse	2,754
Vehicles, equipment and software	<u>2,194</u>
Total	6,312
Less: Accumulated Depreciation	<u>(1,067)</u>
Net Property and Equipment	<u>\$ 5,245</u>

Note 6: Debt

The Organization's debt as of June 30, 2008, consists of a mortgage note payable, requiring monthly interest only payments of \$7,047 at 6.04% per annum, maturing on November 20, 2017. The mortgage notes are secured by the Organization's warehouse facility.

Note 7: Net Assets

Unrestricted net assets consisted of the following at June 30, 2008 (in thousands):

Designated by the Board of Directors for:	
Operating reserves	\$ 43,162
Undesignated	<u>51,438</u>
Total unrestricted net assets	<u>\$ 94,601</u>

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

Temporarily restricted net assets are available for the following purposes at June 30, 2008 (in thousands):

Myanmar recovery efforts	\$ 553
Tsunami recovery efforts	337
Caribbean Cancer Center project	294
Bucket Brigade–Fire Truck project	195
Hurricane Katrina recovery efforts	259
Southern California fire relief efforts	117
Program–specific grants	922
Country–specific assistance	211
Other activities	415
Total temporarily restricted net assets	<u>\$ 3,303</u>

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

Note 8: Board Designated Reserve Fund

The board designated reserve fund is unrestricted and was established in 1998 by the Board of Directors as the Board-Restricted Investment Fund (“BRIF”, formerly known as the “Quasi-Endowment Fund”). The purpose of the BRIF is to provide a reserve for future operations. The BRIF’s resources come from board-designated unrestricted bequests and gifts, return on the Fund’s portfolio assets and operating surpluses (measured annually) in excess of current operational needs. Effective April 1, 2007, the assets in the BRIF were all transferred to the Foundation. The BRIF is authorized to distribute its portfolio assets to pay for non-program 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 three months ended June 30, 2008, \$984 thousand was distributed to cover all fundraising and administration costs.

For the period ended June 30, 2008, the fund recorded the following activity (in thousands):

Board designated bequests and donations	\$ 230
Dividends and interest	306
Funds transferred in/(out)	(984)
Realized gains	37
Unrealized gains	188
Change in value – split interest agreements	(28)
Expenses	(24)
Total	<u>\$ (276)</u>

Note 9: Pension Expense

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

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

The Organization's contributions to the Plan amounted to \$41 thousand for the three months ended June 30, 2008.

The Organization also maintains a tax-deferred annuity plan established under Internal Revenue Code section 403(b) for employees who joined the Organization prior to January 1, 2004. There have been no contributions to this 403(b) plan since the establishment of the Plan.

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 three months ended June 30, 2008, was \$2.5 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 three months ended June 30, 2008, the Organization was at risk for \$1.5 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 33% of its current period cash contributions from ten single donors and 87% of its current period in-kind contributions from five 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 the three months ended June 30, 2008, totaled \$83 thousand.

As of June 30, 2008, the Organization had future minimum payments for the storage space lease as follows for the years ending June 30 (in thousands):

2009	\$ 335
2010	343
2011	351
2012	360
2013	<u>182</u>
Total	<u>\$ 1,571</u>

DIRECT RELIEF INTERNATIONAL AND DIRECT RELIEF FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

The Organization is also leasing three Kyocera photocopiers used in operations. Leased property having elements of ownership are recorded as capital leases in the Statement of Financial Position. The related obligations, in amounts equal to the present value of the minimum lease payments payable during the remaining term of the lease, are recorded in the long-term debt account group. Total payments on such leases for the three months ending June 30, 2008, were \$1 thousand.

The cost of assets under capital leases totaled \$21 thousand and accumulated depreciation of these assets was \$9 thousand as of June 30, 2008. Depreciation expense was \$1 thousand for the three months ending June 30, 2008. Amortization of assets held under capital lease is included with depreciation expense.

As of June 30, 2008, the Organization had future minimum payments under capital leases of \$5 thousand for each of the next two years and \$3 thousand in the last year, with a total of \$1 thousand representing the remaining interest expense.

Note 14: Subsequent Events:

As of December 31, 2008, the market value of the Organization's investments in the BRIF has been severely impacted by the world-wide financial crisis of the last six months. As a result, the Organization has experienced a decline of approximately 25% of the value of its investments since June 30, 2008. Given the continuing uncertainty of the investment environment and to ensure access to liquidity for operational needs, the Organization has decided to rebalance the investment portfolio with approximately 30% of the investment assets being held in highly-liquid and minimal principal risk United States Government securities. As a result of the rebalancing the Organization has realized a loss of approximately \$6.7 million.

For the period ended December 31, 2008, the BRIF recorded the following activity (in thousands):

BRIF balance at June 30, 2008	\$ 45,782
Net operating draws	(1,854)
Income net of fees	286
Realized loss	(6,678)
Unrealized loss	(4,820)
Change in value –split interest agreements	<u>(50)</u>
BRIF balance at December 31, 2008	<u>\$ 32,666</u>