DIRECT RELIEF INTERNATIONAL
AND
DIRECT RELIEF FOUNDATION

COMBINED FINANCIAL STATEMENTS
MARCH 31, 2008

DIRECT RELIEF INTERNATIONAL AND
DIRECT RELIEF FOUNDATION

March 31, 2008

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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 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 March 31, 2008, and the related combined statements of activities, 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 March 31, 2007, is presented for comparative purposes only and was extracted from the financial statements for that year, on which an unqualified opinion dated August 21, 2007, 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.

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 March 31, 2008, 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.

McGowan Guntermann

July 30, 2008

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

COMBINED STATEMENT OF FINANCIAL POSITION
MARCH 31, 2008

(WITH COMPARATIVE TOTALS AS OF MARCH 31, 2007)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total March 31, 2008	(Memo) Total March 31, 2007
Assets					
Current assets:					
Cash and cash equivalents	$ 849	$ 2,750	$ -	$ 3,599	$ 3,177
Investments	43,421	-	25	43,446	43,997
Contributions and other receivables	425	230	-	655	110
Inventories	53,384	-	-	53,384	81,647
Prepaid expenses	162	-	-	162	93
Total current assets	98,241	2,980	25	101,246	129,024
				-	
Property and equipment - net of accumulated depreciation of $984 thousand	4,932	-	-	4,932	3,961
Contributions receivable from:					
Pledged bequests	-	257	-	257	-
Remainder unitrusts	-	72	-	72	76
Other assets	17	-	-	17	22
Total assets	$ 103,190	$ 3,309	$ 25	$ 106,524	$ 133,083
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Accounts payable	$ 209	$ -	$ -	$ 209	$ 244
Current portion of long-term debt	5	-	-	5	1,467
Other current liabilities	590	-	-	590	444
Total current liabilities	804	-	-	804	2,155
Long-term debt	1,400	-	-	1,400	-
Capital lease obligation	8	-	-	8	17
Distribution payable - split interest agreements	-	20	-	20	24
Total liabilities	2,212	20	-	2,232	2,196
Net assets:					
Unrestricted net assets:					
Board designated reserve fund	44,265	-	-	44,265	44,192
Undesignated	56,713	-	-	56,713	84,597
Total unrestricted net assets	100,978	-	-	100,978	128,789
Temporarily restricted assets	-	3,289	-	3,289	2,073
Permanently restricted assets	-	-	25	25	25
Total net assets	100,978	3,289	25	104,292	130,887
Total liabilities and net assets	$ 103,190	$ 3,309	$ 25	$ 106,524	$ 133,083

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
FOR THE YEAR ENDED MARCH 31, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OF MARCH 31, 2007)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total March 31, 2008	(Memo) Total March 31, 2007
Public support and revenue					
Public support:					
In cash and securities:					
Contributions	$ 6,839	$ 1,916	$ -	$ 8,755	$ 38,266
Corporate and foundation grants	339	1,742	-	2,081	1,737
Workplace giving campaigns	156	-	-	156	205
Special events	437	-	-	437	533
Total public support from cash and securities	7,771	3,658	-	11,429	40,741
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	187,473	-	-	187,473	200,644
Contributed freight	549	-	-	549	889
Contributed goods - other	9	-	-	9	128
Professional services received	301	-	-	301	161
Total from donated goods and services	188,332	-	-	188,332	201,822
Total Public support	196,103	3,658	-	199,761	242,563
Revenue:					
Investment income	1,058	52	-	1,110	1,244
Gain on sale of investments	1,051	-	-	1,051	1,189
Change in value - split interest agreements	(3)	-	-	(3)	38
Unrealized loss on investments	(688)	-	-	(688)	(706)
Program service fees	5	-	-	5	8
Other income	-	-	-	-	3
Total revenue	1,423	52	-	1,475	1,776
Net assets released from restrictions:	2,494	(2,494)	-	-	-
Total public support and revenue	200,020	1,216	-	201,236	244,339
Expenses					
Program services:					
Medical supplies and related expenses	224,851	-	-	224,851	154,660
Supporting services:					
Administration	1,746	-	-	1,746	1,306
Fundraising	1,234	-	-	1,234	896
Total supporting services	2,980	-	-	2,980	2,202
Total expenses	227,831	-	-	227,831	156,862
Change in net assets	$ (27,811)	$ 1,216	$ -	$ (26,595)	$ 87,477

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

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

COMBINED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2007)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at March 31, 2006	$ 37,332	$ 6,053	$ 25	$ 43,410
Increase (decrease) in net assets for the year ended March 31, 2007	91,457	(3,980)	-	87,477
Balance at March 31, 2007	128,789	2,073	25	130,887
Increase (decrease) in net assets for the year ended March 31, 2008	(27,811)	1,216	-	(26,595)
Balance at March 31, 2008	$ 100,978	$ 3,289	$ 25	$ 104,292

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 YEAR ENDED MARCH 31, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2007)

(in thousands)

	Program Services					Total Program Services	Supporting Services		Total Program and Supporting Services March 31, 2008	(Memo) Total Program and Supporting Services March 31, 2007
	Domestic Services	International Services	International Disaster	Tsunami Services	So Cal Fires Services		Administration	Fundraising		
Compensation and related benefits:										
Salaries	$ 512	$ 1,329	$ 3	$ 28	$ -	$ 1,872	$ 871	$ 527	$ 3,270	$ 2,537
Payroll taxes	34	88	-	2	-	124	52	30	206	171
Employee benefits	60	150	-	3	-	213	106	53	372	238
Total compensation and related benefits	606	1,567	3	33	-	2,209	1,029	610	3,848	2,946
Other expenses										
Pharmaceuticals, medical equipment and supplies distributed - donated	59,851	136,543	15,461	-	1,451	213,306	-	-	213,306	135,558
Pharmaceuticals, medical equipment and	-	-	-	-	-	-	-	-	-	-
supplies distributed - procured	62	537	2	7	3	612	-	-	612	596
Inventory adjustment (expired pharmaceuticals)	-	2,430	-	-	-	2,430	-	-	2,430	7,649
Accounting and legal fees	1	17	-	-	-	18	48	1	67	82
Advertising	-	-	-	-	-	-	4	8	12	8
Bank charges and brokerage fees	20	3	-	-	-	24	32	-	56	41
Contract services	115	503	4	19	-	641	263	103	1,008	506
Contributed services	4	13	-	-	-	18	51	232	301	161
Contributed freight	157	391	-	-	-	549	-	-	549	889
Contributed goods	-	-	-	-	-	-	-	9	9	23
Disposal costs (expired pharmaceuticals)	9	22	-	-	-	32	-	-	32	58
Dues and subscriptions	2	29	-	-	-	31	15	2	48	27
Duplicating and printing	1	-	-	-	-	1	74	50	124	81
Equipment and Software maintenance	14	66	-	-	-	80	18	8	106	17
Equipment rental	1	3	-	-	-	4	1	2	7	-
Freight and transportation	117	1,273	14	7	5	1,416	-	1	1,417	1,303
Grants and stipends	154	869	153	403	565	2,145	-	-	2,145	5,518
Insurance	9	24	-	-	-	33	10	1	44	43
Interest	19	49	-	-	-	69	6	2	77	81
Meetings, conferences, special events	3	9	-	-	-	12	38	58	109	148
Miscellaneous	-	-	-	-	-	-	-	-	-	16
Outside computer services	-	-	-	-	-	-	1	7	8	8
Postage and mailing services	10	5	-	-	4	19	25	38	82	68
Rent and other occupancy	101	275	-	4	-	380	2	1	382	319
Supplies	22	65	1	-	-	87	16	12	115	97
Taxes, licenses and fees	-	-	-	-	-	-	4	-	4	4
Training and education	3	10	-	-	-	12	7	3	23	4
Travel and automobile	21	336	2	12	1	372	22	56	450	324
Utilities and telephone	20	71	-	1	-	91	23	7	120	87
Web Hosting	15	46	-	-	-	61	22	9	92	-
Total expenses before depreciation	61,340	145,157	15,640	487	2,029	224,652	1,711	1,219	227,582	156,662
Depreciation and amortization	54	146	-	-	-	199	36	15	250	200
Total functional expenses - March 31, 2008	$ 61,393	$ 145,302	$ 15,640	$ 487	$ 2,029	$ 224,851	$ 1,746	$ 1,234	$ 227,831	$ 156,862
Total functional expenses - March 31, 2007	$ 23,048	$ 121,110	$ 6,417	$ 4,085	$ -	$ 154,660	$ 1,306	$ 896	$ 156,862	

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

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2007)

(in thousands)

	Total March 31, 2008	(Memo) Total March 31, 2007
Cash flows from operating activities:		
Cash collected from public support	$ 10,628	$ 40,732
Cash paid for goods and services	(10,937)	(11,963)
Dividend and Interest income	1,119	1,244
Other income	(5)	12
Net cash provided by operating activities	805	30,025
Cash flows from investing activities:		
Purchase of investments	(20,306)	(51,310)
Proceeds from sale of investments	21,281	17,147
Purchase of capital assets	(1,283)	(498)
Unitrust distributions	(4)	(5)
Net cash used by investing activities	(312)	(34,666)
Cash flows from financing activities:		
Payments on mortgage	(62)	(52)
Payments on capital lease obligation	(9)	(4)
Net cash used for financing activities	(71)	(56)
Net increase (decrease) in cash and cash equivalents	422	(4,697)
Cash and cash equivalents - beginning of year	3,177	7,874
Cash and cash equivalents - end of year	$ 3,599	$ 3,177
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ (26,595)	$ 87,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	250	200
Change in inventory	28,263	(57,436)
Change in receivables	(798)	(8)
Change in prepaid expenses and other assets	(65)	(34)
Change in accounts payable and accrued expenses	112	296
Loss on fixed assets disposed of	62	3
Realized gain on sale of investments	(1,112)	(1,189)
Unrealized loss on investments	688	716
Net cash provided by operating activities	$ 805	$ 30,025

The accompanying notes are an integral part of these 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

Basis of Presentation:

These notes and accompanying combined financial statements include DRI and the Foundation (the combination hereinafter referred to as the "Organization"). 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. To present comparative financial statements, the Organization has included summarized comparative information for the twelve-month period ending on March 31, 2007.

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 $3.6 million and $3.2 million as of March 31, 2008 and 2007, respectively.

Fair Values of Financial Instruments:

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

The carrying amount of all of the Organization's financial instruments approximate fair value.

Investments:

Investments are reported at fair value. 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.

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 March 31, 2008 and 2007, were composed of the following (in thousands):

	2008	2007
Pharmaceuticals	$ 49,684	$ 74,406
Medical supplies	2,553	6,453
Equipment	1,147	788
Total inventories	$ 53,384	$ 81,647

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 period.

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.

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 market value at the end of each year. The present value of the total estimated future distributions to the donors on the date of each gift is recorded as a liability. The present value of the Organization's interest in each of the charitable remainder trusts is also adjusted on an annual basis.

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.

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 March 31, 2008, all the investments were held by the Foundation. Investment holdings as of March 31, 2008, and 2007 are composed of the following (in thousands):

	2008		2007	
	Cost	Market	Cost	Market
Equity Securities	$ 25,953	$ 25,545	$ 26,164	$ 26,085
Fixed Income Securities	8,962	8,832	10,876	10,994
Commodities	1,374	1,600	1,313	1,342
Alternative Investments	7,191	7,469	4,990	5,576
Total Investments	$ 43,480	$ 43,446	$ 43,343	$ 43,997

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

	Cost	Market Value	Excess of Market Over Cost
Balance at end of the year	$ 43,480	$ 43,446	$ (34)
Balance at the beginning of the year	43,343	43,997	654
Net change in unrealized gain on Investments			$ (688)

The Organization had investment expenses of $98 thousand during the year ended March 31, 2008.

Note 4: Property and Equipment

The Organization's investment in property and equipment as of March 31, 2008 and 2007, consisted of the following (in thousands):

	2008	2007
Land	$ 1,364	$ 1,364
Office and Warehouse	2,660	2,446
Vehicles, equipment and software	1,892	991
Total	5,916	4,801
Less: Accumulated Depreciation	(984)	(840)
Net Property and Equipment	$ 4,932	$ 3,961

Note 5: Debt

The Organization's debt consists of the following as of March 31, 2008 and 2007 (in thousands):

	2008	2007
Mortgage note payable, requiring monthly interest only payments of $7,047 at 6.04%, maturing on November 20, 2017	$ 1,400	$ -
Mortgage note payable, requiring monthly payments of $ 7,604 including interest at 5.50%, maturing on October 1, 2007	-	1,060
Mortgage note payable, requiring monthly payments of $ 3,222 including interest at 4.50%, maturing on November 1, 2007	-	407
Total debt	1,400	1,467
Less: current portion	-	(1,467)
Long-term portion	$ 1,400	$ -

The mortgage notes are secured by the Organization's warehouse facility.

Note 6: Net Assets

Unrestricted net assets consisted of the following at March 31, 2008 and 2007 (in thousands):

	2008	2007
Designated by the Board of Directors for:		
Operating reserves	$ 44,265	$ 44,192
Undesignated	56,713	84,597
Total unrestricted net assets	$ 100,978	$ 128,789

Temporarily restricted net assets are available for the following purposes at March 31, 2008 and 2007 (in thousands):

	2008	2007
Tsunami recovery efforts	$ 345	$ 807
Caribbean Cancer Center project	325	-
Bucket Brigade–Fire Truck project	276	-
Hurricane Katrina recovery efforts	259	255
Southern California fire relief efforts	170	-
Peru earthquake recovery efforts	97	-
Pakistan earthquake recovery efforts	3	130
Program–specific grants	775	213
Country–specific assistance	109	6
Capital expenditures	336	638
Other activities	594	24
Total temporarily restricted net assets	$ 3,289	$ 2,073

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

Note 7: 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 year ended March 31, 2008, $2.1 million was distributed to cover all fundraising and administration costs as well as implementation costs for a new enterprise resource planning platform. No distributions were made during the year ended March 31, 2007.

For the years ended March 31, 2008 and 2007, the fund recorded the following activity (in thousands):

	2008	2007
Board designated bequests and donations	$ 2,713	$ 32,813
Dividends and interest	1,036	1,021
Funds transferred in/(out)	(3,429)	324
Realized gains	1,105	1,188
Unrealized losses	(688)	(707)
Change in value – split interest agreements	(3)	53
Expenses	(103)	(50)
Total	$ 631	$ 34,642

Note 8: Pension Expense

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

The Organization's contributions to the Plan amounted to $146 thousand and $96 thousand respectively, for the years ended March 31, 2008 and 2007.

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 9: Non-Qualified Deferred Compensation Agreement

The Organization is party to a non-qualified deferred compensation agreement with the surviving spouse of a co-founder of the Organization. Under the terms of the agreement, beginning January 1, 1971, the Organization is obligated to make monthly payments in acknowledgement of his 23 years of service. The retirement agreement expense for the twelve months ended March 31, 2008 and 2007, was $10 thousand in each period.

Note 10: Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of bank and brokerage deposits. The Organization places its temporary cash investments with financial institutions and brokerages. For the twelve months ended March 31, 2008, the Organization was at risk for $2.67 million in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to $100 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 11: Concentrations of Income Risk

The Organization received 18% of its current year cash contributions in the form of a bequest from a single donor and 60% of its current year in-kind contributions from four corporate donors.

Note 12: Related Party Transactions

On July 21, 2005, in response to a significant increase in product donations, the Organization signed a sublease with Global Brand Marketing, Inc. (GBMI) to acquire an additional 23,043 square feet of storage space located directly across the street from the main facility. The terms of the lease call for an initial monthly base rent of $23 thousand with a provision for periodic index-based adjustments. The lease term was twenty-nine months, beginning August 1, 2005 and ending on December 31, 2007. Total monthly base rents due during the term of the lease were $668 thousand. Payments made to GBMI in the year ended March 31, 2008, totaled $161 thousand with nothing due and payable at year end. The founder of GBMI is a director of the Organization.

Effective January 1, 2008, the Organization, with the assistance of Pacifica Commercial Realty, leased the aforementioned property directly with the owner, Daketta Pacific. Pacifica Commercial Realty was paid $25 thousand for their services. A principal in Pacifica Commercial Realty is related to a board member of the Organization.

For the year ended March 31, 2008, fees totaling $8 thousand were paid to the law firm of Hatch and Parent for legal services relating to the incorporation of the Direct Relief Foundation and other general counsel matters. Since April 2007, the Organization has engaged Hatch and Parent to provide on-going legal services on a pro-bono basis. Stanley Hatch, the Organization's Chairman of the Board, became "of counsel" and discontinued his status as a member of the

Hatch and Parent firm in January 2001 and as of that date divested himself of all his financial ownership interest in the firm. Effective January 1, 2008, Hatch & Parent merged with Brownstein Hyatt Farber Schreck.

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 fiscal year ended March 31, 2008, totaled $290 thousand.

As of March 31, 2008, the Organization had future minimum payments for the storage space lease as follows for the years ending March 31 (in thousands):

2009	$ 332
2010	340
2011	348
2012	357
2013	272
Total	$ 1,649

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 fiscal year ending March 31, 2008, were $5 thousand.

The cost of assets under capital leases totaled $21 thousand and accumulated depreciation of these assets was $8 thousand as of March 31, 2008. Depreciation expense was $4 thousand for March 31, 2008. Amortization of assets held under capital lease is included with depreciation expense.

As of March 31, 2008, the Organization had future minimum payments under capital leases of $5 thousand for each of the next three years with $1 thousand representing interest.