Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information for

Direct Relief and Affiliates

June 30, 2014

MOSS ADAMS LLP

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CONTENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Direct Relief and Affiliates

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Direct Relief and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Direct Relief and Affiliates as of June 30, 2014, and the change in net assets, functional expenses and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of the statement of financial position, activities and functional expenses of Direct Relief, on pages 22–25, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 30, 2014

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

ASSETS

ASSETS		
Cash and cash equivalents	$	593
Investments		36,702
Contributions and other receivables		1,624
Inventories		99,202
Prepaid expenses		470
Property and equipment, net of accumulated depreciation of $5,122		5,983
Trust receivable		100
Other assets		370
Total assets	$	145,044

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	$	817
Other current liabilities		1,391
Long-term debt		1,336
Capital lease obligation		10
Deferred compensation		39
Distribution payable - split-interest agreements		15
Total liabilities		3,608
NET ASSETS		
Unrestricted net assets:		
Board designated investment fund		33,977
Undesignated		99,620
Total unrestricted net assets		133,597
Temporarily restricted assets		
Permanently restricted assets		7,814
		25
Total net assets		141,436
Total liabilities and net assets	$	145,044

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Public support				
In cash and securities				
Contributions	$ 6,468	$ 5,197	$ -	$ 11,665
Business and foundation grants	683	6,913	-	7,596
Workplace giving campaigns	171	76	-	247
Special events	-	217	-	217
Total public support from cash and securities	7,322	12,403	-	19,725
From contributed goods and services				
Pharmaceuticals, medical supplies and equipment	429,863	-	-	429,863
Contributed freight	2,288	-	-	2,288
Contributed goods - other	19	7	-	26
Professional services received	2,621	-	-	2,621
Total from contributed goods and services	434,791	7	-	434,798
Total public support	442,113	12,410	-	454,523
REVENUE				
Investment income	464	13	-	477
Realized gain on investments	1,256	-	-	1,256
Unrealized gain on investments	2,712	-	-	2,712
Program service fees	-	360	-	360
Total revenue	4,432	373	-	4,805
Net assets released from restrictions	10,352	(10,352)	-	-
Total public support and revenue	456,897	2,431	-	459,328
PROGRAM SERVICES				
Pharmaceuticals, medical supplies, equipment and related expenses	546,208	-	-	546,208
SUPPORTING SERVICES				
Administration	2,691	-	-	2,691
Fundraising	1,704	-	-	1,704
Total supporting services	4,395	-	-	4,395
Total expenses	550,603	-	-	550,603
Change in net assets	(93,706)	2,431	-	(91,275)
Net asset, beginning of year	227,303	5,383	25	232,711
Net asset, end of year	$ 133,597	$ 7,814	$ 25	$ 141,436

See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Program Services		
	Pharmaceuticals, Medical Supplies, Equipment and Related Expenses		Total Program Services
	USA	International	
Compensation and related benefits			
Salaries	$ 1,007	$ 2,139	$ 3,146
Payroll taxes	64	131	195
Employee benefits	162	327	489
Total compensation and related benefits	1,233	2,597	3,830
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	68,178	432,686	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	151	2,172	2,323
Inventory adjustment (expired pharmaceuticals)	6,848	18,349	25,197
Accounting and legal fees	1	11	12
Advertising	1	1	2
Bank charges	-	1	1
Contract services	305	542	847
Contributed services	1,132	1,497	2,629
Contributed freight	681	1,136	1,817
Contributed goods	2	3	5
Disposal costs (expired pharmaceuticals)	35	77	112
Dues and subscriptions	15	37	52
Duplicating and printing	6	2	8
Equipment and software maintenance	40	94	134
Equipment rental	2	14	16
Freight and transportation	479	2,095	2,574
Grants and stipends	652	2,257	2,909
Insurance	13	32	45
Interest	10	23	33
Meetings, conferences, special events	23	40	63
Miscellaneous	14	4	18
Outside computer services	2	4	6
Postage and mailing services	4	6	10
Rent and other occupancy	170	540	710
Supplies	130	230	360
Taxes, licenses and fees	-	-	-
Training and education	4	10	14
Travel and automobile	71	349	420
Utilities and telephone	33	97	130
Web hosting	83	169	252
Total expenses before depreciation	79,085	462,478	541,563
Depreciation and amortization	268	547	815
Total functional expenses	$ 80,586	$ 465,622	$ 546,208

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Supporting Services		Total Program and Supporting Services
	Administration	Fundraising	June 30, 2014
Compensation and related benefits			
Salaries	$ 1,191	$ 867	$ 5,204
Payroll taxes	70	52	317
Employee benefits	184	137	810
Total compensation and related benefits	1,445	1,056	6,331
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	-	-	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	-	-	2,323
Inventory adjustment (expired pharmaceuticals)	-	-	25,197
Accounting and legal fees	119	1	132
Advertising	29	6	37
Bank charges	114	-	115
Contract services	392	149	1,388
Contributed services	158	66	2,853
Contributed freight	-	-	1,817
Contributed goods	11	4	20
Disposal costs (expired pharmaceuticals)	-	-	112
Dues and subscriptions	31	14	97
Duplicating and printing	50	38	96
Equipment and software maintenance	10	24	168
Equipment rental	2	3	21
Freight and transportation	-	-	2,574
Grants and stipends	-	-	2,909
Insurance	14	2	61
Interest	3	2	38
Meetings, conferences, special events	20	103	186
Miscellaneous	13	-	31
Outside computer services	1	33	40
Postage and mailing services	2	22	34
Rent and other occupancy	24	19	753
Supplies	19	27	406
Taxes, licenses and fees	7	-	7
Training and education	4	-	18
Travel and automobile	45	35	500
Utilities and telephone	20	12	162
Web hosting	29	6	287
Total expenses before depreciation	1,117	566	543,246
Depreciation and amortization	129	82	1,026
Total functional expenses	$ 2,691	$ 1,704	$ 550,603

 See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

Cash flows from operating activities	
Cash collected from public support and other program services	$ 19,649
Cash paid for goods and services	(18,481)
Interest paid	(38)
Dividend and interest income	477
Net cash provided by operating activities	1,607
Cash flows from investing activities	
Purchase of investments	(12,957)
Proceeds from sale of investments	10,934
Purchase of property and equipment	(364)
Net cash used in investing activities	(2,387)
Cash flows from financing activities	
Principal paid under long term debt	(40)
Repayments on capital lease obligation	(8)
Net cash used in financing activities	(48)
Net decrease in cash and cash equivalents	(828)
Cash and cash equivalents, beginning of year	1,421
Cash and cash equivalents, end of year	$ 593

Reconciliation of change in net assets to net cash used in operating activities

Change in net assets	$ (91,275)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,026
Realized gain from investments	(1,256)
Unrealized gain from investments	(2,712)
Change in inventories	96,186
Loss on disposal of fixed assets	162
Donated services pledged for next fiscal year	(245)
Increase (decrease) in cash due to change in operating assets and liabilities:	
Contributions and other receivables	(435)
Prepaid expenses and other assets	(438)
Accounts payable and other current liabilities	599
Deferred compensation	(5)
Net cash provided by operating activities	$ 1,607

See accompanying notes.

Note 1 – Organization

Direct Relief is a California non-profit public benefit corporation founded in 1948 whose mission is to improve the health and lives of people affected by poverty 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.

Direct Relief-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.

Note 2 – Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements are as follows:

Basis of accounting – The consolidated financial statements have been prepared on the accrual basis.

Principles of consolidation – The 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 consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

The Organization has also included separate financial statements for Direct Relief as supplementary information to the consolidated financial statements.

Financial statement presentation – 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 represent expendable funds available for operations that are not otherwise limited by donor restrictions;

- Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed or legal restrictions, contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds; and

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations or other donor specified purpose.

Cash and cash equivalents – The Organization considers all highly-liquid investments purchased with an original maturity of three months or less from the date of acquisition to be cash equivalents.

Investments – Investments are presented in the consolidated financial statements at fair 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 consolidated statement of financial position 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 consolidated statement of activities.

Investments, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect the amounts reported in the consolidated statement of financial position.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of marketable debt and equity securities are based on quoted market prices from national security exchanges. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Note 2 – Summary of Significant Accounting Policies (continued)

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 markets that are not active; 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.

The 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. Level 1 securities include domestic and international fixed income funds and domestic and international equities funds. 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. Level 2 securities include certain structured asset backed securities such as CDOs and are priced based on valuations provided to the investment managers by independent, third party pricing agents or a bid price from an independent broker. Level 2 securities also include a core property fund that invests directly and indirectly in a diversified pool of private investment vehicles that invest in commercial real estate properties and are valued at an amount equal to the sum of the capital accounts determined in accordance with GAAP and as provided by the fund manager. In the event that a fund does not report a value the most current reported valuation adjusted for cash flows is used. In certain cases where Level 1 or Level 2 inputs are not available, the domestic and international private equity funds, distressed debt private equity funds and real estate private equity are classified within Level 3 of the hierarchy.

Securities classified within Level 3 are based on information provided by external fund managers and, investment advisors. Level 3 investments, which include domestic and international private equity funds, distressed debt private equity funds and real estate private equity, are based on valuations provided by the external investment managers, adjusted for receipts and disbursements of cash and distributions of securities if the date of valuation is prior to the Organization's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. The Organization believes the carrying amounts of these financial instruments are a reasonable estimate of their fair value. For those investments that are not traded on a ready market, the estimates of their fair values may differ from the values that would have been used had a ready market for those investments existed.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value of domestic and international private equity funds, distressed debt private equity funds and real estate private equity is accounted for at net asset value, or NAV, and seek to achieve capital appreciation and to maximize the total return on its investments over the short and long-term. Such strategies to achieve these objectives are to invest through a combination of long and short-term investments in various industries. Such investments include:

- Equity and debt-related securities of publicly traded and private U.S. companies.
- Equity and debt-related securities of publicly traded and private foreign companies.
- Financially troubled companies' debt-related securities.
- Partnership interests in real estate.

Investment strategies of such funds include the use of margin and other forms of leverage including taking short positions, swaps, futures, options, warrants, private placements, forward contracts, trade claims and credit default swaps and real estate instruments, when deemed appropriate by fund managers. Other event-driven investment strategies include: distressed securities and special situations. All investment objectives and strategies used by the fund managers comply with the Organization's Investment Policy.

The Organization's policy is to recognize transfers in and transfers out at the end of the reporting period. This policy includes transfers in and transfers out of Level 1, Level 2 and Level 3.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Investment Committee, in conjunction with the external investment advisors, monitors the valuation and performance of the investments on a quarterly basis. The Investment Committee reports to the Finance Committee of the Board.

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 distribution payable liability on the statement of financial position. The present value of the Organization's interest in each of the charitable remainder trusts is also adjusted on an annual basis.

Note 2 – Summary of Significant Accounting Policies (continued)

Inventories – Purchased inventory is carried at average cost. Donated inventory is carried at average estimated wholesale value, which approximates fair value, as of the date of receipt. Inventory balances as of June 30, 2014, were composed of the following:

Pharmaceuticals	$	91,834
Medical supplies/kits		6,013
Equipment		1,355
Total inventories	$	99,202

Property and equipment – Property and equipment purchased are recorded at cost. The Organization's capitalization policy is to capitalize purchases of property and equipment in excess of one thousand dollars. 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 and improvements	20 - 40 years
Equipment and software	3 - 10 years

Revenue recognition – All components of public support from cash and securities i.e. contributions, business and foundation grants, workplace giving campaigns and special events, which include unconditional promises to give (pledges), are recognized as revenue in the period received, promised or the date the event occurred. 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 consolidated 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributed materials – Contributions of U.S. Food and Drug Administration approved pharmaceuticals, branded and generic, are recorded at estimated wholesale value, which approximates fair 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 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 Health Access Initiative) 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 consolidated 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 period incurred.

Endowments – The Board of Directors of the Organization interpret the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) to state that the Organization, in the absence of explicit donor stipulations to the contrary, may appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. As a result of this interpretation, The Organization classifies as permanently restricted net assets (a) the value of gifts donated to the endowment, (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (c) appreciation and (or) deprecation in fair value of the related financial instrument. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 2 – Summary of Significant Accounting Policies (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

(1) The duration and preservation of the fund
(2) The mission of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

Joint costs – During the year the Organization incurred joint costs of $39 thousand for informational materials that included fundraising appeals. The Organization allocated $26 thousand to administration expense and $13 thousand to fundraising expense.

Use of estimates – The preparation of the consolidated financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes – The Organization is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701d. Therefore, no amounts for income taxes are reflected in the accompanying consolidated financial statements. The Organization had inconsequential unrelated business income tax during the year ended June 30, 2014 and no tax provision has been made in the accompanying consolidated financial statements.

The Organization, under the provisions of ASC 740, *Income Taxes*, had no uncertain tax positions requiring accrual as of June 30, 2014. The Organization's tax returns are subject to review and examination by federal and state authorities. The Organization is no longer subject to income tax examinations by taxing authorities for years before June 2011 for its federal filing and for years before June 2010 for its state filings.

AMOUNTS ARE PRESENTED IN THOUSANDS

Note 3 – Investments

At June 30, 2014, investments consisted of the following:

	Level 1	Level 2	Level 3	Total
Fixed income funds				
Domestic	$ 11,442	-	-	$ 11,442
International	1,073	-	-	1,073
International government securities funds	4	-	-	4
Equity funds				
Domestic	10,450	-	-	10,450
International	5,182	-	-	5,182
Private equity funds				
Domestic	-	3,104	1,590	4,694
International	-	1,622	1,845	3,467
Distressed debt	-	-	387	387
Real estate	-	-	3	3
	$ 28,151	$ 4,726	$ 3,825	$ 36,702

The following table represents the liquidity, redemption restrictions and future capital commitments on the financial instruments above that are valued at NAV (Level 2 and Level 3 investments):

	Fair Value at June 30, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds				
Domestic	$ 4,694	$ 219	90 days; Not redeemable	65 days
International	3,467	80	90-180 days; Not redeemable	95 days
Distressed debt	387	114	Not redeemable	N/A
Real estate	3	-	Not redeemable	N/A
	$ 8,551	$ 413		

AMOUNTS ARE PRESENTED IN THOUSANDS

Note 3 – Investments (continued)

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statement of financial position using significant unobservable (Level 3) inputs:

	June 30, 2013	Purchase	Sales and Settlements	Investment Income	Transfers In*	Transfers Out**	June 30, 2014
Fixed income funds							
Domestic	$ 268	-	-	$ (128)	-	$ (140)	-
Private equity funds							
Domestic	1,940	89	(209)	234	-	(464)	1,590
International	2,752	38	(72)	137	468	(1,478)	1,845
Distressed debt	421	-	(270)	47	189	-	387
Real estate	19	-	(12)	(4)	-	-	3
	$ 5,400	$ 127	$ (563)	$ 286	$ 657	$ (2,082)	$ 3,825

* Transfers in to Level 3 resulted from a change in the redemption period which was greater than 90 days after year end.
** Transfers out of Level 3 resulted from a reduction in the redemption period to less than 90 days after year end.

Level 3 realized and unrealized gains and losses are included in realized and unrealized gains on investments on the consolidated statement of activities. The instruments which had unrealized gains are still held by the Organization as of June 30, 2014.

Note 4 – Property and Equipment

The Organization's investment in property and equipment as of June 30, 2014, consisted of the following:

Land	$ 1,364
Buildings and improvements	3,296
Equipment and software	6,445
Total	11,105
Less: Accumulated Depreciation	(5,122)
Net Property and Equipment	$ 5,983

Depreciation and amortization expense for the year ended June 30, 2014 was $1,026 thousand.

AMOUNTS ARE PRESENTED IN THOUSANDS

Note 5 – Long-Term Debt

The Organization's debt as of June 30, 2014, consists of a mortgage note payable, requiring monthly principal and interest payments of $6.4 thousand at 2.63% per annum through November 20, 2017. The loan matures on November 20, 2017 and a balloon payment of $1,207 thousand is due at that time. The mortgage note is secured by the Organization's warehouse facility.

As of June 30, 2014, the Organization had future minimum principal payments as follows:

For the years ending June 30:		
2015	$	42
2016		43
2017		44
2018		1,207
Total	$	1,336

Note 6 – Net Assets

Net assets consisted of the following at June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 33,977	$ -	$ -	$ 33,977
Unrestricted	99,620	-	-	99,620
Time restricted	-	2,077	-	2,077
Purpose restricted	-	5,737	-	5,737
Endowment	-	-	25	25
Total net assets	$ 133,597	$ 7,814	$ 25	$ 141,436

Note 7 – Endowment Funds

The Organization's endowment consists of two individual funds; (1) the Donor Restricted Endowment Fund and (2) the Board Designated Investment Fund (referred to as the 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.

AMOUNTS ARE PRESENTED IN THOUSANDS

Note 7 – Endowment Funds (continued)

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, 2014 endowment net asset composition by type of fund is:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 33,973	$ -	$ -	$ 33,973
Donor-restricted	-	4	25	29
Appropriated	4	(4)	-	-
Total endowment funds	$ 33,977	$ -	$ 25	$ 34,002

Changes in the endowment net assets for the year ended June 30, 2014 are:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 30,542	$ -	$ 25	$ 30,567
Net investment return (investment income, realized and unrealized gains and losses)	4,594	4	-	4,598
Contributions	452	-	-	452
Appropriation of endowment assets for expenditure	(1,611)	(4)	-	(1,615)
Endowment net assets, end of year	$ 33,977	$ -	$ 25	$ 34,002

Note 7 – Endowment Funds (continued)

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 seven 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 and permanently restricted net assets. 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 expenses, as well as 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, 2014, $1.6 million was distributed, and an additional $2.1 million is approved for distribution, to cover fundraising costs and the CEO's salary.

Note 8 – Retirement Plan

The Organization established the Direct Relief 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 $202 thousand to the Plan for the year ended June 30, 2014.

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 year ended June 30, 2014, was $10 thousand, which includes the current years' expense.

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. At times, the Organization's cash exceeds the current insured amount under the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation. However, management believes the risk of loss to be minimal. 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 consolidated statement of financial position and activities.

Note 11 – Concentrations Risk

The Organization received 52% of total public support from two corporate donors during the year ended June 30, 2014. At June 30, 2014, there were no outstanding receivables from the donors.

Note 12 – Leases

The Organization is leasing 23,043 square feet of storage space located in Santa Barbara. The terms of this agreement is based upon a month-to-month rental agreement. Payments for rent and common area expenses for the lease of the facility for the year ended June 30, 2014 totaled $346 thousand.

Note 13 – Subsequent Events

ASC 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the financial position date and before the consolidated financial statements are available to be issued. The Organization has evaluated subsequent events through October 30, 2014, which is the date the consolidated financial statements were available to be issued, other than the following events:

On July 30, 2014, Direct Relief Mexico, a wholly owned subsidiary of Direct Relief, was formed. Direct Relief Mexico is registered in Mexico as a public benefit corporation. No operations have commenced as of the date of the report.

On October 9, 2014, Direct Relief entered into a contract with the City of Santa Barbara to purchase land for constructing a new building to house its offices and distribution center. The agreement is in the amount of $9 million, but subject to the evaluation and assessment of permits and city approval to build.

SUPPLEMENTARY INFORMATION ON DIRECT RELIEF

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

ASSETS

ASSETS		
Cash and cash equivalents	$	576
Investments		2,712
Contributions and other receivables		3,460
Inventories		99,202
Prepaid expenses		470
Property and equipment - net of accumulated depreciation of $4,225,541		5,983
Total assets	$	112,403

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	$	817
Other current liabilities		1,389
Long-term debt		1,336
Capital lease obligation		10
Deferred compensation		39
Distribution payable - split-interest agreements		15
Total liabilities		3,606
NET ASSETS		
Unrestricted restricted assets, undesignated		102,091
Temporarily restricted assets		6,706
Total net assets		108,797
Total liabilities and net assets	$	112,403

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Public support				
In cash and securities:				
Contributions	$ 6,468	$ 5,197	$ -	$ 11,665
Business and foundation grants	683	6,913	-	7,596
Workplace giving campaigns	171	76	-	247
Special events	-	217	-	217
Total public support from cash and securities	7,322	12,403	-	19,725
From contributed goods and services:				
Pharmaceuticals, medical supplies and equipment	429,863	-	-	429,863
Contributed freight	2,288	-	-	2,288
Contributed goods - other	19	7	-	26
Professional services received	2,621	-	-	2,621
Total from contributed goods and services	434,791	7	-	434,798
Total public support	442,113	12,410	-	454,523
Revenue				
Investment income	1	13	-	14
Realized loss on sale of investments	(161)	-	-	(161)
Unrealized gain on investments	2	-	-	2
Program service fees	-	360	-	360
Total revenue	(158)	373	-	215
Net assets released from restrictions	10,352	(10,352)	-	-
Total public support and revenue	452,307	2,431	-	454,738
Program services				
Medical supplies and related expenses	546,208	-	-	546,208
Supporting services:				
Administration	2,508	-	-	2,508
Fundraising	1,704	-	-	1,704
Total supporting services	4,212	-	-	4,212
Total expenses	550,420	-	-	550,420
Change in net assets	$ (98,113)	$ 2,431	$ -	$ (95,682)

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Program Services		
	Pharmaceuticals, Medical Supplies, Equipment and Related Expenses		Total Program Services
	USA	International	
Compensation and related benefits:			
Salaries	$ 1,007	$ 2,139	$ 3,146
Payroll taxes	64	131	195
Employee benefits	162	327	489
Total compensation and related benefits	1,233	2,597	3,830
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	68,178	432,686	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	151	2,172	2,323
Inventory adjustment (expired pharmaceuticals)	6,848	18,349	25,197
Accounting and legal fees	1	11	12
Advertising	1	1	2
Bank charges	-	1	1
Contract services	305	542	847
Contributed services	1,132	1,497	2,629
Contributed freight	681	1,136	1,817
Contributed goods	2	3	5
Disposal costs (expired pharmaceuticals)	35	77	112
Dues and subscriptions	15	37	52
Duplicating and printing	6	2	8
Equipment and software maintenance	40	94	134
Equipment rental	2	14	16
Freight and transportation	479	2,095	2,574
Grants and stipends	652	2,257	2,909
Insurance	13	32	45
Interest	10	23	33
Meetings, conferences, special events	23	40	63
Miscellaneous	14	4	18
Outside computer services	2	4	6
Postage and mailing services	4	6	10
Rent and other occupancy	170	540	710
Supplies	130	230	360
Taxes, licenses and fees	-	-	-
Training and education	4	10	14
Travel and automobile	71	349	420
Utilities and telephone	33	97	130
Web hosting	83	169	252
Total expenses before depreciation	79,085	462,478	541,563
Depreciation and amortization	268	547	815
Total functional expenses	$ 80,586	$ 465,622	$ 546,208

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	Supporting Services		Total Program and Supporting Services
	Administration	Fundraising	June 30, 2014
Compensation and related benefits:			
Salaries	$ 1,191	$ 867	$ 5,204
Payroll taxes	70	52	317
Employee benefits	184	137	810
Total compensation and related benefits	1,445	1,056	6,331
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	-	-	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	-	-	2,323
Inventory adjustment (expired pharmaceuticals)	-	-	25,197
Accounting and legal fees	103	1	116
Advertising	29	6	37
Bank charges	114	-	115
Contract services	225	149	1,221
Contributed services	158	66	2,853
Contributed freight	-	-	1,817
Contributed goods	11	4	20
Disposal costs (expired pharmaceuticals)	-	-	112
Dues and subscriptions	31	14	97
Duplicating and printing	50	38	96
Equipment and software maintenance	10	24	168
Equipment rental	2	3	21
Freight and transportation	-	-	2,574
Grants and stipends	-	-	2,909
Insurance	14	2	61
Interest	3	2	38
Meetings, conferences, special events	20	103	186
Miscellaneous	13	-	31
Outside computer services	1	33	40
Postage and mailing services	2	22	34
Rent and other occupancy	24	19	753
Supplies	19	27	406
Taxes, licenses and fees	7	-	7
Training and education	4	-	18
Travel and automobile	45	35	500
Utilities and telephone	20	12	162
Web hosting	29	6	287
Total expenses before depreciation	934	566	543,063
Depreciation and amortization	129	82	1,026
Total functional expenses	$ 2,508	$ 1,704	$ 550,420

 See accompanying report of independent auditors.