DIRECT RELIEF INTERNATIONAL

FINANCIAL STATEMENTS

March 31, 2007

DIRECT RELIEF INTERNATIONAL

March 31, 2007

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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
Santa Barbara, California

We have audited the accompanying statement of financial position of Direct Relief International (a non-profit organization) as of March 31, 2007, and the related 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. The financial statements of Direct Relief International as of March 31, 2006, were audited by other auditors whose report dated June 21, 2006, expressed an unqualified opinion on those statements. Information for the year ended March 31, 2006, is presented for comparative purposes only and was extracted from the financial statements for that year.

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 financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International as of March 31, 2007, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

[redacted] [redacted]

August 21, 2007

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
MARCH 31, 2007

(WITH COMPARATIVE TOTALS AS OF MARCH 31, 2006)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total March 31, 2007	(Memo) Total March 31, 2006
Assets					
Current assets:					
Cash and cash equivalents	$ 1,079	$ 2,097	$ -	$ 3,177	$ 7,874
Investments in marketable securities	43,972	-	25	43,997	9,360
Contributions and other receivables	111	-	-	111	141
Inventories	81,647	-	-	81,647	24,210
Prepaid expenses	93	-	-	93	77
Total current assets	126,902	2,097	25	129,025	41,662
Property and equipment - net of accumulated depreciation of $840	3,961	-	-	3,961	3,667
Contributions receivable from remainder unitrusts	76	-	-	76	37
Other assets	22	-	-	22	3
Total assets	$ 130,961	$ 2,097	$ 25	$ 133,083	$ 45,370
Liabilities and Net Assets					
Liabilities:					
Current liabilities:					
Accounts payable	$ 244	$ -	$ -	$ 244	$ 78
Current portion of long-term debt	1,467	-	-	1,467	52
Other current liabilities	444	-	-	444	313
Total current liabilities	2,155	-	-	2,155	443
Long-term debt	-	-	-	-	1,467
Capital Lease Obligation	17	-	-	17	21
Distribution payable - split interest agreements	-	24	-	24	29
Total liabilities	2,172	24	-	2,196	1,960
Net assets:					
Unrestricted net assets:					
Board designated reserve fund	44,192			44,192	9,550
Undesignated	84,597			84,597	27,782
Total unrestricted net assets	128,789	-	-	128,789	37,332
Temporarily restricted assets		2,073		2,073	6,053
Permanently restricted assets			25	25	25
Total net assets	128,789	2,073	25	130,887	43,410
Total liabilities and net assets	$ 130,961	$ 2,097	$ 25	$ 133,083	$ 45,370

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2007

(WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED OF MARCH 31, 2006)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total March 31, 2007	(Memo) Total March 31, 2006
Public support and revenue					
Public support:					
In cash and securities:					
Contributions	$ 37,363	$ 903	$ -	$ 38,266	$ 12,481
Corporate and foundation grants	803	934	-	1,737	1,685
Workplace giving campaigns	205	-	-	205	138
Special events	533	-	-	533	136
Total public support from cash and securities	38,903	1,837	-	40,740	14,440
From donated goods and services:					
Pharmaceuticals, medical supplies and equipment	200,644	-	-	200,644	120,996
Contributed freight	889	-	-	889	517
Contributed goods - other	128	-	-	128	-
Professional services received	161	-	-	161	-
Total from goods and services	201,823	-	-	201,823	121,512
Total Public support	240,726	1,837	-	242,563	135,952
Revenue:					
Investment income	1,107	137	-	1,244	887
Gain on sale of investments	1,189	0	-	1,189	52
Change in value - split interest agreements	38	-	-	38	(2)
Unrealized gain on investments	(706)	0	-	(706)	600
Program service fees	8	0	-	8	7
Other income	3	-	-	3	(22)
Total revenue	1,639	137	-	1,776	1,523
Net assets released from restrictions:	5,953	(5,953)		-	-
Total public support and revenue	248,318	(3,980)	-	244,339	137,475
Expenses					
Program services:					
Medical supplies and related expenses	154,659			154,659	208,717
Supporting services:					
Administration	1,306			1,306	998
Fundraising	896			896	681
Total supporting services	2,202	-	-	2,202	1,679
Total expenses	156,861	-	-	156,861	210,396
Change in net assets	$ 91,457	$ (3,980)	$ -	$ 87,477	$ (72,921)

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED MARCH 31, 2007

(WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED OF MARCH 31, 2006)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at March 31, 2005	$ 106,816	$ 9,504	$ 10	$ 116,331
Increase/(decrease) in net assets for the year ended March 31, 2006	(69,485)	(3,452)	15	(72,921)
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

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE TWELVE MONTHS ENDED MARCH 31, 2007

(WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED OF MARCH 31, 2006)

(in thousands)

	Program Services						Total	Supporting Services		Total Program and Supporting	Total Program and Supporting
	Domestic Services	International Services	Tsunami Services	Katrina Services	Java Services	Pakistan Services	Program Services	Administration	Fundraising	Services March 31, 2007	Services March 31, 2006
Compensation and related benefits:											
Salaries	$ 219	$ 1,257	$ 30	$ 40	$ -	$ 31	$ 1,576	$ 618	$ 342	$ 2,537	$ 2,008
Payroll taxes	15	85	2	3	-	2	107	40	23	171	151
Employee benefits	19	118	3	4	-	3	147	62	29	238	235
Total compensation and related benefits	253	1,460	35	47	-	36	1,830	721	395	2,946	2,394
Other expenses											
Pharmaceuticals, medical equipment and supplies distributed - donated	16,132	108,046	799	5,100	4,782	699	135,558	-	-	135,558	190,057
Pharmaceuticals, medical equipment and supplies distributed - procured	18	562	7		4	4	596	-	-	596	1,887
Inventory adjustment (expired pharmaceuticals)	-	7,649	-	-	-	-	7,649	-	-	7,649	2,179
Accounting and legal fees	0	7	0	0	-	0	7	74	1	82	41
Advertising	-	0	-	-	-	-	0	3	5	8	13
Bank charges and brokerage fees	1	7	1	-	-	-	8	33	0	41	58
Contract services	64	142	29	-	-	-	235	242	29	506	424
Contributed services	-	-	-	-	-	-	-	1	160	161	10
Contributed freight expense	139	750	-	-	-	-	889	-	-	889	773
Contributed goods	-	1	-	-	-	-	1	-	22	23	-
Disposal costs (expired pharmaceuticals)	9	49	-	-	-	-	58	-	-	58	-
Dues and subscriptions	1	18	-	-	-	-	19	7	1	27	20
Duplicating and printing	1	2	-	-	-	-	3	51	28	81	115
Equipment repairs and maintenance	1	10	0	-	-	-	12	3	2	17	20
Freight and transportation charges	172	1,000	82	1	31	15	1,300	-	1	1,301	1,046
Grants and stipends	82	612	3,078	923	229	593	5,518	-	-	5,518	10,242
Insurance	5	28	-	-	-	-	33	9	1	43	37
Interest	10	62	-	-	-	-	72	6	2	81	83
Meetings, conferences, special events	0	5	0	(0)	-	-	5	40	102	148	122
Miscellaneous	-	2	-	-	-	-	2	14	-	16	0
Outside computer services	1	0	-	-	-	-	1	0	7	8	16
Postage and mailing services	1	6	0	-	-	-	7	6	55	68	95
Rent and other occupancy	46	250	20	-	-	-	316	2	1	319	237
Supplies	10	59	1	-	-	-	70	19	8	97	71
Taxes, licenses and fees	0	0	-	-	-	-	0	4	0	4	4
Training and education	0	1	-	-	-	-	1	1	2	4	14
Travel and automobile expenses	2	176	33	4	11	10	236	30	58	324	237
Utilities and telephone	7	60	0	-	3	0	70	13	4	87	65
Total expenses before depreciation	16,955	120,966	4,085	6,074	5,060	1,358	154,498	1,279	885	156,661	210,259
Depreciation and amortization	19	142	-	-	-	-	161	27	12	200	136
Total functional expenses - March 31, 2007	$ 16,974	$ 121,108	$ 4,085	$ 6,074	$ 5,060	$ 1,358	$ 154,659	$ 1,306	$ 896	$ 156,861	$ 210,396
Total functional expenses - March 31, 2006	$ 1,914	$ 146,197	$ 22,635	$ 30,324	$ -	$ 7,648	$ 208,717	$ 998	$ 681	$ 210,396	

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

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED MARCH 31, 2007

(WITH COMPARATIVE TOTALS FOR THE TWELVE MONTHS ENDED OF MARCH 31, 2006)

(in thousands)

	Total March 31, 2007	Total March 31, 2006
Cash flows from operating activities:		
Increase in net assets	$ 87,477	$ (72,921)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	200	136
Loss on fixed assets disposed of	3	32
Realized gain on sale of investments	1,189	52
Unrealized gain on investments	706	(600)
In kind donated securities	(368)	(491)
Changes in operating assets and liabilities:		
Inventory	(57,437)	71,235
Contributions receivable	30	157
Prepaid expenses	(16)	(43)
Other assets	(18)	-
Accounts payable	166	(233)
Accrued expenses	145	110
Other liabilities	(15)	(15)
Net cash provided (used) by operating activities	32,063	(2,583)
Cash flows from investing activities:		
Purchases of property and equipment	(498)	(668)
Proceeds from sale of property and equipment	-	10
Proceeds from sales and maturities of investments	14,779	914
Proceeds from sale of donated securities	368	491
Purchases of investments	(51,311)	(3,107)
Investment in split interest agreements	(38)	30
Distribution payable	(5)	1
Net cash used by investing activities	(36,704)	(2,329)
Cash flows from financing activities:		
Principal reduction on first and second trust deeds	(52)	(49)
Line of credit	-	(1)
Capital lease obligation	(4)	-
Net cash used by financing activities	(56)	(51)
Net decrease in cash and cash equivalents	(4,697)	(4,963)
Cash and cash equivalents - beginning of period	7,874	12,837
Cash and cash equivalents - end of period	$ 3,177	$ 7,874
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 78	$ 81

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

Note 1: Summary of Significant Accounting Policies

Organization and Basis of Presentation:

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

The Organization's program services consist of providing essential pharmaceuticals, medical supplies and medical equipment on a humanitarian basis to support health services in medically underserved communities around the world. In the United States the Organization's activities focus on the delivery of donated medicines and supplies to uninsured patients through support of nonprofit clinics and health centers treating low-income patients. In Santa Barbara and surrounding communities the Organization conducts programs dedicated to improving the oral health of low-income children and enhancing disaster preparedness efforts. Under agreements with local emergency response authorities, the Organization'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 the Organization'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.

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.

To present comparative financial statements, the Organization has included summarized comparative information for the twelve-month period ending on March 31, 2006.

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 $3.177 million and $7.874 million as of March 31, 2007 and 2006, 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 estimated fair values of the Organization's financial instruments were as follows at March 31, 2007 and 2006 (in thousands):

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	$ 3,177	$ 3,177	$ 7,874	$ 7,874
Investments				
Current	-	-	-	-
Non current	43,997	43,997	9,360	9,360
Liabilities				
Current debt	1,467	1,467	52	52
Non current debt	-	-	1,467	1,467

The carrying value of all other financial instruments approximates fair value.

Investments:

Investments are reported at fair value. The separately managed Board Restricted Investment Fund accumulates portfolio income and realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Directors. Amounts annually available for expenditure are based on the Board of Directors approved distribution rate, currently five percent (5%) of Fund's portfolio assets.

Inventory:

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, 2007 and 2006 were composed of the following (in thousands):

	2007	2006
Pharmaceuticals	$ 74,406	$ 18,870
Medical supplies	6,453	4,726
Equipment	788	614
Total inventory	$ 81,647	$ 24,210

Land, Buildings and Other Property:

Property and equipment purchased are recorded at cost. Donated assets are capitalized at the estimated fair value on 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 revenues 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. Contributions of medical equipment are recorded at estimated wholesale value based upon wholesale price guides or, when necessary, judgmentally determined.

Donated shipping is valued at full published rates in effect at the time of shipment. 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.

The Organization recorded the following revenues for the years ended March 31, 2007 and 2006 (in thousands):

	2007	2006
Donated pharmaceuticals, supplies, and equipment	$ 200,645	$ 120,996
Donated shipping	889	517
Donated goods	128	-
Donated services	161	10
Total donated goods and services	$ 201,823	$ 121,523

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. The future interests in the gift annuity and unitrust 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.

Income Taxes:

The Organization is a not-for-profit organization that is 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 2: Contributions Receivable

As of March 31, 2007, and 2006, the Organization had recorded contributions receivable of $111 thousand and $141 thousand respectively. The balance is primarily composed of an estate receivable waiting on final tax clearance letters.

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. Investment holdings as of March 31, 2007, and 2006 are composed of the following (in thousands):

	2007		2006	
	Cost	Market	Cost	Market
Equity Securities	$ 26,164	$ 26,085	$ $ 6,470	$ 7,521
Fixed Income Securities	10,876	10,994	-	-
Commodities	1,313	1,342	-	-
Alternative Investments	4,990	5,576	1,521	1,831
Total Investments	$ 43,343	$ 43,997	$ $ 7,999	$ 9,360

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	$ 43,343	$ 43,997	$ 654
Balance at the beginning of the year	7,999	9,360	1,361
Net change in unrealized gain on Investments			$ (707)

The Organization had investment expenses of $52 thousand during the year ended March 31, 2007.

Note 4: Property and Equipment

The Organization's investment in property and equipment as of March 31, 2007 and 2006, consisted of the following (in thousands):

	2007	2006
Land	$ 1,364	$ 1,364
Office and Warehouse	2,446	2,218
Vehicles, equipment and software	991	752
Total	4,801	4,334
Less: Accumulated Depreciation	(840)	(667)
Net Property and Equipment	$ 3,961	$ 3,667

Note 5: Debt

The Organization's debt consists of the following as of March 31, 2007 and 2006 (in thousands):

	2007	2006
Mortgage note payable, requiring monthly payments of $ 7,604 including interest at 5.50%, maturing on October 1, 2007	$ 1,060	$ 1,093
Mortgage note payable, requiring monthly payments of $ 3,222 including interest at 4.50%, maturing on November 1, 2007	407	426
Total debt	1,467	1,519
Less: current portion	(1,467)	(52)
Long-term portion	$ -	$ 1,467

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

The Organization is considering refinancing the mortgage in the upcoming fiscal year.

Note 6: Net Assets

Unrestricted net assets consisted of the following at March 31, 2007 and 2006 (in thousands):

	2007	2006
Designated by the Board of Directors for:		
Operating reserves	$ 44,192	$ 9,550
Undesignated	84,597	27,782
Total unrestricted net assets	$ 128,789	$ 37,332

Temporarily restricted net assets are available for the following purposes at March 31, 2007 and 2006 (in thousands):

	2007	2006
Tsunami recovery efforts	$ 807	$ 3,738
Hurricane Katrina recovery efforts	255	838
Pakistan earthquake recovery efforts	130	748
Program Grants	213	275
Country-specific assistance shipments	6	250
Capital expenditures	638	165
Other activities	24	39
Total temporarily restricted net assets	$ 2,073	$ 6,053

Permanently restricted net assets consisted of endowed contributions, the income from which is available to fund the following at March 31, 2007 and 2006 (in thousands):

	2007	2006
General operations	$ 25	$ 25
Total unrestricted net assets	$ 25	$ 25

Donor-restricted endowment gifts shall be invested and accounted for according to the terms of the specific gift(s) and/or the provisions of California Probate Code sections 18500-18509 (Uniform Management of Institutional Funds Act).

Note 7: Board Restricted Investment Fund

In 1998, the Organization established a board-designated investment fund (formerly known as the "Quasi-Endowment Fund"). The purpose of the fund was to provide a reserve for future operations. The Fund'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.

The Fund is currently authorized to distribute up to five percent (5%) of the average market value (measured January 1 for the three preceding years) of the Fund's portfolio assets to support general operations. Distributions in excess of five (5%) require a 75% vote of the Board of Directors. No distributions were made during the twelve month periods ending March 31, 2007 and March 31, 2006.

For the twelve month periods ending March 31, 2007 and 2006, the fund recorded the following activity (in thousands):

	2007	2006
Board designated bequests and donations	$ 32,813	$ 243
Dividends and interest	1,021	617
Funds transferred in/(out)	324	689
Realized gains	1,188	56
Unrealized gains	(707)	590
Change in value – split interest agreements	53	7
Expenses	(50)	(11)
Total	$ 34,642	$ 2,191

The Fund incurred expenses of $50 thousand and $11 thousand, respectively, during the twelve month periods ending March 31, 2007 and 2006.

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.

Prior to 2004, the Organization maintained a tax deferred annuity plan established under Internal Revenue Code section 403(b).

The Organizations contributions to the various pension plans amounted to $96 thousand and $60 thousand respectively, for the twelve months ended March 31, 2007 and 2006.

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, 2007 and 2006, 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, 2007, the Organization was at risk for $1.14 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 79% of its current year cash contributions in the form of a bequest from a single donor and 50% 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. 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 is twenty nine months, beginning August 1, 2005 and ending December 31, 2007. Total monthly base rents due during the term of the lease are $668 thousand. Payments made in the fiscal year ending March 31, 2007, totaled $277 thousand and nothing was due and payable at year end. The founder of GBMI is a director of the Organization.

For the fiscal year ending March 31, 2007, fees totaling $14 thousand were paid to the law firm of Hatch and Parent for legal services relating to the incorporation of the Direct Relief Foundation. Since then, 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.

Note 13: Leases

The Organization is subleasing 23,043 square feet of storage space located at 30 S. La Patera Lane at a cost of $1/square foot. The terms of this agreement end on December 31, 2007. Payments for the fiscal year ending March 31, 2007 totaled $277 thousand. Payments under this agreement for the fiscal year ending March 31, 2008 are anticipated to be $207 thousand. The Organization has leased the property directly with the owner, Daketta Pacific, effective January 1, 2008.

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 general long-term debt account group. Total payments on such leases for the fiscal year ending March 31, 2007 were $5 thousand.

The cost of assets under capital leases totaled $21 thousand and accumulated depreciation of these assets was $4 thousand as of March 31, 2007. Depreciation expense was $3 thousand for March 31, 2007. Amortization of assets held under capital leases is included with depreciation expense.

As of March 31, 2007, the Organization had future minimum payments under capital lease as follow for the years ending March 31 (in thousands):

2008	$ 5
2009	5
2010	5
2011	4
Thereafter	--
Subtotal	$ 19
Less interest	(2)
Total principal due	$ 17

Note 14: Formation of Supporting Foundation

In October 2006, Direct Relief Foundation was formed and incorporated in the state of California. The Foundation is organized and shall be operated solely and exclusively for the benefit of, to support, or to carry out the purposes of Direct Relief International. The Foundation shall 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 this organization.