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

Direct Relief and Affiliates

June 30, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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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, 2015, 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

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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, 2015, 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

Report on Summarized Comparative Information

We have previously audited the Direct Relief and Affiliate's June 30, 2014 consolidated financial statements, and our report dated October 30, 2014, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information includes schedules of the statement of financial position, and statements of activities and functional expenses of Direct Relief, exclusive of its affiliates (Direct Relief Foundation, Direct Relief International-South Africa and Direct Relief-Mexico), as of June 30, 2015 and 2014, and for the years then ended, on pages 24–27, 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
September 28, 2015

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

ASSETS	2015	2014
ASSETS		
Cash and cash equivalents	$ 7,260	$ 593
Investments	35,769	36,702
Contributions and other receivables	6,253	1,624
Inventories	265,979	99,202
Prepaid expenses	314	470
Property and equipment, net of accumulated depreciation of $6,205 for 2015 and $5,122 for 2014	5,512	5,983
Trust receivable	500	100
Other assets	669	370
Total assets	$ 322,256	$ 145,044
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,086	$ 817
Other current liabilities	1,159	1,401
Long-term debt	1,293	1,336
Deferred compensation	29	39
Distribution payable - split-interest agreements	14	15
Total liabilities	3,581	3,608
NET ASSETS		
Unrestricted net assets		
Board designated investment fund	34,760	33,977
Undesignated	264,708	99,620
Total unrestricted net assets	299,468	133,597
Temporarily restricted assets	19,207	7,814
Permanently restricted assets	-	25
Total net assets	318,675	141,436
Total liabilities and net assets	$ 322,256	$ 145,044

See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
PUBLIC SUPPORT AND REVENUE					
Public support					
In cash and securities					
Contributions	$ 5,634	$ 13,582	$ -	$ 19,216	$ 11,665
Business and foundation grants	692	11,510	-	12,202	7,596
Workplace giving campaigns	227	137	-	364	247
Special events	-	157	-	157	217
Total public support from cash and securities	6,553	25,386	-	31,939	19,725
From contributed goods and services					
Pharmaceuticals, medical supplies and equipment	858,656	-	-	858,656	429,863
Contributed freight	1,006	1,146	-	2,152	2,288
Contributed goods - other	41	-	-	41	26
Professional services received	3,736	-	-	3,736	2,621
Total from contributed goods and services	863,439	1,146	-	864,585	434,798
Total public support	869,992	26,532	-	896,524	454,523
REVENUE					
Investment income	539	20	-	559	477
Realized gain on investments	2,661	-	-	2,661	1,256
Unrealized (loss) gain on investments	(1,771)	-	-	(1,771)	2,712
Program service fees	-	106	-	106	360
Total revenue	1,429	126	-	1,555	4,805
Net assets redesignated and released from restrictions	15,290	(15,265)	(25)	-	-
Total public support and revenue	886,711	11,393	(25)	898,079	459,328
PROGRAM SERVICES					
Pharmaceuticals, medical supplies, equipment and related expenses	714,560	-	-	714,560	546,208
SUPPORTING SERVICES					
Administration	3,948	-	-	3,948	2,691
Fundraising	2,331	-	-	2,331	1,704
Total supporting services	6,279	-	-	6,279	4,395
Total expenses	720,839	-	-	720,839	550,603
Change in net assets	165,872	11,393	(25)	177,240	(91,275)
Net asset, beginning of year	133,597	7,814	25	141,436	232,711
Net asset, end of year	$ 299,469	$ 19,207	$ -	$ 318,676	$ 141,436

See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015		
	Program Services: Pharmaceuticals, Medical Supplies, Equipment and Related Expenses		Total Program Services
	USA	International	
Compensation and related benefits			
Salaries	$ 978	$ 2,630	$ 3,608
Payroll taxes	64	171	235
Employee benefits	155	413	568
Total compensation and related benefits	1,197	3,214	4,411
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	64,856	543,083	607,939
Pharmaceuticals, medical equipment and supplies distributed - procured	142	2,482	2,624
Inventory adjustment (expired pharmaceuticals)	31,638	52,559	84,197
Accounting and legal fees	1	34	35
Advertising	-	-	-
Bank charges	-	1	1
Contract services	291	547	838
Contributed services	791	1,768	2,559
Contributed freight	246	1,810	2,056
Contributed goods	8	16	24
Disposal costs (expired pharmaceuticals)	58	79	137
Dues and subscriptions	27	36	63
Duplicating and printing	6	14	20
Equipment and software maintenance	33	103	136
Equipment rental	3	24	27
Freight and transportation	453	3,488	3,941
Grants and stipends	793	1,786	2,579
Insurance	9	40	49
Interest	6	25	31
Meetings, conferences, special events	18	15	33
Miscellaneous	27	7	34
Outside computer services	-	1	1
Postage and mailing services	5	11	16
Rent and other occupancy	96	612	708
Supplies	114	210	324
Taxes, licenses and fees	-	-	-
Training and education	1	2	3
Travel and automobile	85	410	495
Utilities and telephone	29	127	156
Web hosting	57	152	209
Total expenses before depreciation	99,793	609,442	709,235
Depreciation and amortization	244	670	914
Total functional expenses June 30, 2015	$ 101,234	$ 613,326	$ 714,560
Total functional expenses June 30, 2014	$ 80,586	$ 465,622	$ 546,208

See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015			2014
	Supporting Services		Total Program and Supporting Services	Total Program and Supporting Services
	Administration	Fundraising		
Compensation and related benefits				
Salaries	$ 1,360	$ 1,012	$ 5,980	$ 5,204
Payroll taxes	85	64	384	317
Employee benefits	206	155	929	810
Total compensation and related benefits	1,651	1,231	7,293	6,331
Other expenses				
Pharmaceuticals, medical equipment and supplies distributed - donated	-	-	607,939	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	-	-	2,624	2,323
Inventory adjustment (expired pharmaceuticals)	-	-	84,197	25,197
Accounting and legal fees	136	1	172	132
Advertising	36	17	53	37
Bank charges	112	-	113	115
Contract services	572	476	1,886	1,388
Contributed services	922	255	3,736	2,853
Contributed freight	-	-	2,056	1,817
Contributed goods	7	5	36	20
Disposal costs (expired pharmaceuticals)	-	-	137	112
Dues and subscriptions	37	21	121	97
Duplicating and printing	37	44	101	96
Equipment and software maintenance	20	28	184	168
Equipment rental	2	2	31	21
Freight and transportation	-	-	3,941	2,574
Grants and stipends	-	-	2,579	2,909
Insurance	13	2	64	61
Interest	2	2	35	38
Meetings, conferences, special events	21	30	84	186
Miscellaneous	30	-	64	31
Outside computer services	1	38	40	40
Postage and mailing services	3	21	40	34
Rent and other occupancy	12	13	733	753
Supplies	63	19	406	406
Taxes, licenses and fees	7	-	7	7
Training and education	5	-	8	18
Travel and automobile	81	31	607	500
Utilities and telephone	23	13	192	162
Web hosting	17	4	230	287
Total expenses before depreciation	2,159	1,022	712,416	543,246
Depreciation and amortization	138	78	1,130	1,026
Total functional expenses June 30, 2015	$ 3,948	$ 2,331	$ 720,839	
Total functional expenses June 30, 2014	$ 2,508	$ 1,704		$ 550,603

See accompanying notes.

DIRECT RELIEF AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015	2014
Cash flows from operating activities		
Cash collected from public support and other program services	$ 27,015	$ 19,649
Cash paid for goods and services	(21,994)	(18,481)
Interest paid	(35)	(38)
Dividend and interest income	559	477
Net cash provided by operating activities	5,545	1,607
Cash flows from investing activities		
Purchase of investments	(27,963)	(12,957)
Proceeds from sale of investments	29,788	10,934
Purchase of property and equipment	(659)	(364)
Net cash provided by (used in) investing activities	1,166	(2,387)
Cash flows from financing activities		
Principal paid under long term debt	(43)	(48)
Net cash used in financing activities	(43)	(48)
Net change in cash and cash equivalents	6,668	(828)
Cash and cash equivalents, beginning of year	593	1,421
Cash and cash equivalents, end of year	$ 7,261	$ 593
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	$ 177,240	$ (91,275)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,130	1,026
Realized gain from investments	(2,661)	(1,256)
Unrealized gain from investments	1,771	(2,712)
Change in inventories	(166,777)	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	(5,029)	(435)
Prepaid expenses and other assets	(142)	(438)
Accounts payable and other current liabilities	23	599
Deferred compensation	(10)	(5)
Net cash provided by operating activities	$ 5,545	$ 1,607

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 supply 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 International-South Africa, (Direct Relief–SA) is a wholly owned subsidiary of Direct Relief and commenced operations in the Republic of South Africa on July 1, 2009. Direct Relief–SA was registered in South Africa as a public benefit corporation in October 2007.

Direct Relief-Mexico, (Direct Relief–MX) is a wholly owned subsidiary of Direct Relief and commenced operations in Mexico on August 1, 2014. Direct Relief–MX was registered in Mexico as a public benefit corporation in July 2014.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Principles of consolidation – The consolidated financial statements include the accounts of Direct Relief, the Foundation, Direct Relief–SA and Direct Relief–MX (collectively, the Organization). All significant balances and transactions among the entities have been eliminated in the accompanying consolidated financial statements.

The supplementary information includes schedules of the statement of financial position, and statements of activities and functional expenses of Direct Relief, exclusive of its affiliates (Direct Relief Foundation, Direct Relief International-South Africa and Direct Relief-Mexico).

Financial statement presentation – Revenues, 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.

Release of donor restricted funds – The Organization redesignated permanently restricted net assets of $25 thousand during the year upon the request of the donor.

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 statements 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 statements of activities.

Note 2 – Summary of Significant Accounting Policies (continued)

The Organization adopted the May 2015 accounting standards update related to Topic 820 – Fair Value Measurement promulgated by the Financial Accounting Standards Board (FASB). This update removes the requirement to categorize investments measured using the net asset value per share/unit practical expedient within the fair value hierarchy. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

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 statements 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.

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 and international government securities funds.

Note 2 – Summary of Significant Accounting Policies (continued)

The fair value of private equity funds are based on net asset value information provided by external fund managers and, investment advisors. These securities, which include domestic and international private equity funds, distressed debt private equity funds and real estate private equity funds, 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.

Fair value of domestic and international private equity funds, distressed debt private equity funds and real estate private equity is valued using the net asset value practical expedient, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 consolidated statements 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.

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, were composed of the following:

	2015	2014
Pharmaceuticals	$ 257,574	$ 91,834
Medical supplies/kits	6,256	6,013
Equipment	2,149	1,355
Total inventories	$ 265,979	$ 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

Note 2 – Summary of Significant Accounting Policies (continued)

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 statements 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. In addition, the present value of cash flows is discounted at the rate of 2.63% to account for the time value of receipts. For the year ended June 30, 2015, there is no allowance for bad debt.

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. For the year ended June 30th, 2015 the Organization adopted a policy of using monthly pricing information available from the Thomson Reuters RedBook© online service provided by Truven Health Analytics. This is a change from the prior years' policy that used an annual snapshot of the Redbook© WAC prices as the basis of valuing contributed pharmaceuticals for an entire one year period. Because prices fluctuate over the course of a year this new policy provides a more accurate and current value of pharmaceuticals that are donated to the Organization. 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 online RedBook© source, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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) depreciation 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.

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 ended June 30, 2015, the Organization incurred joint costs of $40 thousand for informational materials that included fundraising appeals. The Organization allocated $24 thousand to administration expense and $16 thousand to fundraising expense.

During the year ended June 30, 2014, the Organization incurred joint costs of $39 thousand for information materials that included fundraising appeals. The Organization allocated $26 thousand to administration expense and $13 thousand to fundraising expense.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2015 and 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, 2015 and 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 2012 for its federal filing and for years before June 2011 for its state filings.

Note 3 – Investments

At June 30, 2015, investments consisted of the following:

	Level 1	Level 2	Level 3	Total
Fixed income funds				
Domestic	$ 9,810	$ -	$ -	$ 9,810
International	851	-	-	851
International government securities funds	4	-	-	4
Equity funds				
Domestic	10,856	-	-	10,856
International	5,350	-	-	5,350
Private equity funds (measured at net asset value)				
Domestic	-	-	-	5,104
International	-	-	-	3,568
Distressed debt	-	-	-	226
	$ 26,871	$ -	$ -	$ 35,769

Note 3 – Investments (continued)

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 (measured at net asset value)				
Domestic	-	-	-	4,694
International	-	-	-	3,467
Distressed debt	-	-	-	387
Real estate	-	-	-	3
	$ 28,151	$ -	$ -	$ 36,702

The following table represents the liquidity, redemption restrictions and future capital commitments on the financial instruments above that were valued at NAV:

	Fair Value at June 30, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity funds				
Domestic	$ 5,104	$ 157	90 days; Not redeemable	65 days
International	3,568	65	90-180 days; Not redeemable	95 days
Distressed debt	226	114	Not redeemable	N/A
	$ 8,898	$ 336		

Note 4 – Contribution Receivable

Contributions receivable include the following unconditional promises to give at June 30:

	2015	2014
Contributions receivable, gross	$ 6,821	$ 1,624
Less: Present value discount	(568)	-
Contributions receivable, net	$ 6,253	$ 1,624
Amounts due in:		
Less than one year	$ 2,320	$ 1,624
One to five years	3,549	-
More than five years	384	-
	$ 6,253	$ 1,624

As of June 30, 2015 and 2014, there was no allowance for doubtful pledges. Approximately $3 million of the contributions receivable at June 30, 2015 are due from two donors.

Note 5 – Property and Equipment

The Organization's investment in property and equipment as of June 30, 2015 and 2014 consisted of the following:

	2015	2014
Land	$ 1,364	$ 1,364
Buildings and improvements	3,339	3,296
Equipment and software	7,014	6,445
Total	11,717	11,105
Less: Accumulated Depreciation	(6,205)	(5,122)
Net Property and Equipment	$ 5,512	$ 5,983

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 were $1.13 million and $1 million, respectively.

Note 6 – Long-Term Debt

The Organization's debt as of June 30, 2015, 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 and a balloon payment of $1.207 million is due at that time. The mortgage note is secured by the Organization's warehouse facility.

As of June 30, 2015, the Organization's future minimum principal payments are as follows:

For the years ending June 30,	
2016	$ 43
2017	43
2018	1,207
Total	$ 1,293

Note 7 – Net Assets

Net assets consisted of the following at June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 34,760	$ -	$ -	$ 34,760
Unrestricted	264,708	-	-	264,708
Time restricted	-	6,905	-	6,905
Purpose restricted	-	12,302	-	12,302
Total net assets	$ 299,468	$ 19,207	$ -	$ 318,675

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 8 – 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.

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, 2015 endowment net asset composition by type of fund was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 34,760	$ -	$ -	$ 34,760
Donor-restricted	-	-	-	-
Total endowment funds	$ 34,760	$ -	$ -	$ 34,760

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

Note 8 – Endowment Funds (continued)

Changes in the endowment net assets for the year ended June 30, 2015 are:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 33,977	$ -	$ 25	$ 34,002
Net investment return (investment income, realized and unrealized gains and losses)	1,427	-	-	1,427
Contributions	413	-	-	413
Restriction redesignation	25		(25)	-
Appropriation of endowment assets for expenditure	(1,082)	-	-	(1,082)
Endowment net assets, end of year	$ 34,760	$ -	$ -	$ 34,760

Note 8 – Endowment Funds (continued)

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

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 as long-term objectives, within prudent risk constraints.

Note 8 – Endowment Funds (continued)

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, 2015, $895 thousand was distributed, and an additional $3.2 million was approved for distribution, to cover fundraising costs and 50 percent of the CEO's salary. For the year ended June 30, 2014, $1.6 million was distributed, and an additional $2.1 million was approved for distribution, to cover fundraising costs and the CEO's full salary.

Note 9 – 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 $223 thousand and $202 thousand to the Plan for the years ended June 30, 2015 and 2014, respectively.

Note 10 – Non-Qualified Deferred Compensation Agreement

The Organization is party to a non-qualified deferred compensation agreement with the surviving spouse of a co-founder of the Organization. Under the terms of the agreement, beginning January 1, 1971, the Organization is obligated to make monthly payments in acknowledgement of his 23 years of service. The retirement agreement expense for the years ended June 30, 2015 and 2014, was $10 thousand.

Note 11 – Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of bank and brokerage deposits. The Organization places its temporary cash investments with financial institutions and brokerages. 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 statements of financial position and activities.

Note 12 – Concentrations Risk

The Organization received 64% of total public support from four corporate donors during the year ended June 30, 2015. At June 30, 2015, there were no outstanding receivables from the donors.

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 13 – 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 years ended June 30, 2015 and 2014 totaled $346 thousand.

Note 14 – 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 September 28, 2015, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION ON DIRECT RELIEF, EXCLUSIVE OF ITS AFFILIATES (DIRECT RELIEF FOUNDATION, DIRECT RELIEF INTERNATIONAL-SOUTH AFRICA AND DIRECT RELIEF-MEXICO)

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

ASSETS	2015	2014
ASSETS		
Cash and cash equivalents	$ 6,931	$ 576
Investments	1,023	2,712
Contributions and other receivables	4,052	3,460
Inventories	265,979	99,202
Prepaid expenses	313	470
Property and equipment - net of accumulated depreciation of $6,205 for 2015 and $5,122 for 2014	5,512	5,983
Other assets	523	-
Total assets	$ 284,333	$ 112,403
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,086	$ 817
Other current liabilities	1,156	1,399
Long-term debt	1,293	1,336
Deferred compensation	29	39
Distribution payable - split-interest agreements	14	15
Total liabilities	3,578	3,606
NET ASSETS		
Unrestricted restricted assets, undesignated	267,201	102,091
Temporarily restricted assets	13,554	6,706
Total net assets	280,755	108,797
Total liabilities and net assets	$ 284,333	$ 112,403

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015				2014
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
PUBLIC SUPPORT AND REVENUE					
Public support					
In cash and securities:					
Contributions	$ 5,698	$ 9,038	$ -	$ 14,736	$ 11,665
Business and foundation grants	692	11,510	-	12,202	7,596
Workplace giving campaigns	227	137	-	364	247
Special events	-	157	-	157	217
Total public support from cash and securities	6,617	20,842	-	27,459	19,725
From contributed goods and services:					
Pharmaceuticals, medical supplies and equipment	858,656	-	-	858,656	429,863
Contributed freight	1,006	1,145	-	2,151	2,288
Contributed goods - other	35	-	-	35	26
Professional services received	3,736	-	-	3,736	2,621
Total from contributed goods and services	863,433	1,145	-	864,578	434,798
Total public support	870,050	21,987	-	892,037	454,523
Revenue					
Investment income	(1)	20	-	19	14
Realized loss on sale of investments	-	-	-	-	(161)
Unrealized gain on investments	(6)	-	-	(6)	2
Program service fees	-	106	-	106	360
Total revenue	(7)	126	-	119	215
Net assets released from restrictions	15,265	(15,265)	-	-	-
Total public support and revenue	885,308	6,848	-	892,156	454,738
Program services					
Medical supplies and related expenses	714,583	-	-	714,583	546,208
Supporting services:					
Administration	3,756	-	-	3,756	2,508
Fundraising	1,861	-	-	1,861	1,704
Total supporting services	5,617	-	-	5,617	4,212
Total expenses	720,200	-	-	720,200	550,420
Change in net assets	$ 165,108	$ 6,848	$ -	$ 171,956	$ (95,682)

See accompanying report of independent auditors.

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015		
	Program Services: Pharmaceuticals, Medical Supplies, Equipment and Related Expenses		Total Program Services
	USA	International	
Compensation and related benefits:			
Salaries	$ 978	$ 2,545	$ 3,523
Payroll taxes	64	170	234
Employee benefits	155	413	568
Total compensation and related benefits	1,197	3,128	4,325
Other expenses			
Pharmaceuticals, medical equipment and supplies distributed - donated	64,856	543,083	607,939
Pharmaceuticals, medical equipment and supplies distributed - procured	142	2,482	2,624
Inventory adjustment (expired pharmaceuticals)	31,638	52,559	84,197
Accounting and legal fees	1	22	23
Advertising	-	-	-
Bank charges	-	-	-
Contract services	291	537	828
Contributed services	791	1,768	2,559
Contributed freight	246	1,810	2,056
Contributed goods	8	16	24
Disposal costs (expired pharmaceuticals)	58	79	137
Dues and subscriptions	27	36	63
Duplicating and printing	6	14	20
Equipment and software maintenance	33	103	136
Equipment rental	3	24	27
Freight and transportation	453	3,488	3,941
Grants and stipends	793	1,940	2,733
Insurance	9	40	49
Interest	6	25	31
Meetings, conferences, special events	18	15	33
Miscellaneous	27	7	34
Outside computer services	-	1	1
Postage and mailing services	5	11	16
Rent and other occupancy	96	609	705
Supplies	114	210	324
Taxes, licenses and fees	-	-	-
Training and education	1	2	3
Travel and automobile	85	398	483
Utilities and telephone	29	120	149
Web hosting	57	152	209
Total expenses before depreciation	99,793	609,551	709,344
Depreciation and amortization	244	670	914
Total functional expenses June 30, 2015	$ 101,234	$ 613,349	$ 714,583
Total functional expenses June 30, 2014	$ 80,586	$ 465,622	$ 546,208

DIRECT RELIEF (A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2015 WITH SUMMARIZED TOTALS FOR 2014
AMOUNTS ARE PRESENTED IN THOUSANDS

	2015			2014
	Supporting Services		Total Program and Supporting Services	Total Program and Supporting Services
	Administration	Fundraising		
Compensation and related benefits:				
Salaries	$ 1,360	$ 1,005	$ 5,888	$ 5,204
Payroll taxes	85	63	382	317
Employee benefits	206	154	928	810
Total compensation and related benefits	1,651	1,222	7,198	6,331
Other expenses				
Pharmaceuticals, medical equipment and supplies distributed - donated	-	-	607,939	500,864
Pharmaceuticals, medical equipment and supplies distributed - procured	-	-	2,624	2,323
Inventory adjustment (expired pharmaceuticals)	-	-	84,197	25,197
Accounting and legal fees	118	1	142	116
Advertising	36	17	53	37
Bank charges	112	-	112	115
Contract services	402	28	1,258	1,221
Contributed services	922	255	3,736	2,853
Contributed freight	-	-	2,056	1,817
Contributed goods	7	5	36	20
Disposal costs (expired pharmaceuticals)	-	-	137	112
Dues and subscriptions	37	21	121	97
Duplicating and printing	37	33	90	96
Equipment and software maintenance	20	28	184	168
Equipment rental	2	2	31	21
Freight and transportation	-	-	3,941	2,574
Grants and stipends	-	-	2,733	2,909
Insurance	13	2	64	61
Interest	2	2	35	38
Meetings, conferences, special events	21	29	83	186
Miscellaneous	27	-	61	31
Outside computer services	-	38	39	40
Postage and mailing services	3	21	40	34
Rent and other occupancy	12	13	730	753
Supplies	63	19	406	406
Taxes, licenses and fees	7	-	7	7
Training and education	5	-	8	18
Travel and automobile	81	30	594	500
Utilities and telephone	23	13	185	162
Web hosting	17	4	230	287
Total expenses before depreciation	1,967	561	711,872	543,063
Depreciation and amortization	138	78	1,130	1,026
Total functional expenses June 30, 2015	$ 3,756	$ 1,861	$ 720,200	
Total functional expenses June 30, 2014	$ 2,508	$ 1,704		$ 550,420

See accompanying report of independent auditors.