

**LARSON &
RIDGE LLP**

Certified Public Accountants



Post Office Box 92021
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**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**Independent Auditor's Report
and
Accompanying Financial Statements**

December 31, 2001

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Direct Relief International
Santa Barbara, California

We have audited the accompanying statements of financial position of Direct Relief International, a non-profit corporation, as of December 31, 2001 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 Direct Relief International's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 misstatement. 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of Direct Relief International at December 31, 2001 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statement of financial position and statements of activities and changes in net assets for the restricted funds are not a required part of the basic financial statements. These schedules are the responsibility of Direct Relief International's management.

Such supplemental schedules for the year ended December 31, 2001 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

March 22, 2002
Santa Barbara, California



Larson & Ridge LLP
Certified Public Accountants

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2001**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2000

ASSETS	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Total All Funds December 31, 2001</u>	<u>Total All Funds December 31, 2000</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 147,020	\$ 870,471	\$ 1,017,491	\$ 1,037,321
Investments in marketable securities	5,688	1,525,820	1,531,508	1,137,495
Accounts receivable	3,936	-	3,936	12,347
US AID receivable	52,677	-	52,677	21,735
Contributions receivable	58,181	-	58,181	111,514
Grants receivable	-	-	-	25,000
Inventories	18,098,032	-	18,098,032	27,280,404
Prepaid expenses	123,694	-	123,694	23,793
TOTAL CURRENT ASSETS	<u>18,489,228</u>	<u>2,396,291</u>	<u>20,885,519</u>	<u>29,649,609</u>
Future interest in unitrust	-	47,880	47,880	46,254
Investment in gift annuity trust	-	30,413	30,413	38,343
Investment in condominium	-	125,000	125,000	125,000
Note receivable	-	10,000	10,000	10,000
Contributions receivable from remainder unitrusts	-	718,835	718,835	1,181,309
Property and equipment - net of accumulated depreciation of \$414,885	3,068,063	530,000	3,598,063	3,609,893
Deposits	779	-	779	779
Deferred loan costs	12,276	-	12,276	14,381
Due from other funds	238	33,799	34,037	397,282
TOTAL ASSETS	<u>\$ 21,570,584</u>	<u>\$ 3,892,218</u>	<u>\$ 25,462,802</u>	<u>\$ 35,072,850</u>

See notes to financial statements

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2001**

WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2000

	Unrestricted Funds	Restricted Funds	Total All Funds December 31, 2001	Total All Funds December 31, 2000
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 64,750	\$ -	\$ 64,750	\$ 69,096
Accrued compensated absences	34,960	-	34,960	29,452
Accrued expenses	5,732	-	5,732	6,512
Current portion of long-term debt	27,133	-	27,133	25,219
Capital lease obligation	1,408	-	1,408	6,704
Other liabilities	-	-	-	2,006
TOTAL CURRENT LIABILITIES	133,983	-	133,983	138,989
Long-term debt	1,667,038	-	1,667,038	1,694,159
Distribution payable - unitrust	-	23,124	23,124	25,436
Distribution payable - gift annuity trust	-	16,653	16,653	38,231
Due to other funds	33,799	238	34,037	397,282
TOTAL LIABILITIES	1,834,820	40,015	1,874,835	2,294,097
NET ASSETS :				
Unrestricted net assets:				
Undesignated	19,735,764	-	19,735,764	28,670,438
Temporarily restricted	-	3,852,203	3,852,203	4,108,315
TOTAL NET ASSETS	19,735,764	3,852,203	23,587,967	32,778,753
TOTAL LIABILITIES AND NET ASSETS	\$ 21,570,584	\$ 3,892,218	\$ 25,462,802	\$ 35,072,850

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2001

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds December 31, 2001</u>	<u>Total All Funds December 31, 2000</u>
PUBLIC SUPPORT AND REVENUE				
PUBLIC SUPPORT:				
Contributions:				
In cash and securities	\$ 2,255,723	\$ 96,028	\$ 2,351,751	\$ 2,778,732
In-kind - pharmaceutical and medical supplies	72,413,876	-	72,413,876	76,811,999
In-kind - nonmedical	71,965	-	71,965	20,959
Contributed freight	283,568	-	283,568	395,253
Freight subsidy	72,051	-	72,051	137,663
Volunteer services	49,341	-	49,341	53,297
Combined federal campaign contributions	36,372	-	36,372	39,500
Grants	217,500	58,560	276,060	393,000
Fundraising events	38,525	-	38,525	538,668
TOTAL PUBLIC SUPPORT	<u>75,438,921</u>	<u>154,588</u>	<u>75,593,509</u>	<u>81,169,071</u>
REVENUE:				
Investment income	8,527	65,595	74,122	103,156
Gain (loss) on sale of investments	(211)	(62,775)	(62,986)	10,428
Change in value of estates receivable	-	(58,540)	(58,540)	128,345
Unrealized gain (loss) on investments	65	(130,439)	(130,374)	(85,276)
Unrealized gain (loss) on gift annuities	-	12,760	12,760	-
Other income (loss)	68,195	13,573	81,768	52,616
TOTAL REVENUE	<u>76,576</u>	<u>(159,826)</u>	<u>(83,250)</u>	<u>209,269</u>
TOTAL PUBLIC SUPPORT AND REVENUE	75,515,497	(5,238)	75,510,259	81,378,340
Net Assets Released From Restrictions	250,874	(250,874)	-	-
Net Assets Transferred From Unrestricted Net Assets to Restricted Net Assets	-	-	-	-
	<u>75,766,371</u>	<u>(256,112)</u>	<u>75,510,259</u>	<u>81,378,340</u>
EXPENSES				
PROGRAM SERVICES:				
Medical supplies and related expenses	83,973,475	-	83,973,475	70,057,785
SUPPORTING SERVICES				
Resource acquisition	275,991	-	275,991	532,343
Administration	451,579	-	451,579	396,699
TOTAL SUPPORTING SERVICES	<u>727,570</u>	<u>-</u>	<u>727,570</u>	<u>929,042</u>
TOTAL EXPENSES	<u>84,701,045</u>	<u>-</u>	<u>84,701,045</u>	<u>70,986,827</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (8,934,674)</u>	<u>\$ (256,112)</u>	<u>\$ (9,190,786)</u>	<u>\$ 10,391,513</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2001

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at December 31, 1999	\$ 20,065,761	\$ 2,321,479	\$ 22,387,240
Increase in net assets for the year ended December 31, 2000	<u>8,604,677</u>	<u>1,786,836</u>	<u>10,391,513</u>
Balance at December 31, 2000	28,670,438	4,108,315	32,778,753
Decrease in net assets for the year ended December 31, 2001	(8,934,674)	(256,112)	(9,190,786)
Balance at December 31, 2001	<u>\$ 19,735,764</u>	<u>\$ 3,852,203</u>	<u>\$ 23,587,967</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000

	Program Services		Supporting Services	Total Program and Supporting Services December 31,	
	Domestic	International		2001	2000
Contributed services	\$ -	\$ 43,955	\$ 5,386	\$ 49,341	\$ 53,297
Salaries	42,375	754,641	386,734	1,183,750	1,034,602
Payroll taxes	5,267	93,800	35,654	134,721	119,249
Employee benefits	3,623	64,522	41,756	109,901	127,492
Total Salaries and Related Expenses	<u>51,265</u>	<u>956,918</u>	<u>469,530</u>	<u>1,477,713</u>	<u>1,334,640</u>
Pharmaceuticals, medical equipment and supplies distributed	151,262	81,361,481	-	81,512,743	67,849,831
Accounting and legal	-	-	17,354	17,354	12,321
Advertising	21	379	4,213	4,613	7,656
Bank charges and brokerage fees	-	-	17,666	17,666	12,690
Building expenses	33	590	25	648	648
Contract services	38,550	12,191	65,838	116,579	80,503
Contributed freight expense	526	283,042	-	283,568	395,253
Development education	718	12,787	6,433	19,938	8,729
Dues and subscriptions	386	6,883	5,142	12,411	13,911
Duplicating and printing	1,599	28,480	49,545	79,624	50,061
Equipment parts and refurbishment	730	13,005	-	13,735	16,957
Freight and processing charges	407	218,867	-	219,274	249,564
Grants and stipends	310,000	47,585	-	357,585	20,020
In-kind contribution solicitation	324	5,778	-	6,102	4,503
Insurance	1,027	18,289	762	20,078	16,527
Interest	6,501	115,774	6,174	128,449	138,072
Miscellaneous	24	432	124	580	11,571
Office supplies	591	10,529	7,620	18,740	19,477
Packing supplies	166	2,954	-	3,120	3,523
Postage and mailing services	186	3,317	13,365	16,868	11,626
Procurement	27,035	155,999	-	183,034	274,296
Program evaluation	-	13,175	-	13,175	10,467
Public relations	6	108	6,140	6,254	2,360
Publications	9	167	468	644	1,180
Repairs and maintenance	421	7,503	8,361	16,285	11,902
Seminars	69	1,226	520	1,815	3,948
Special events	-	-	8,619	8,619	268,382
Taxes, licenses and fees	64	1,139	15,042	16,245	8,407
Travel and auto expenses	308	5,489	3,655	9,452	23,865
Utilities and telephone	1,453	25,868	4,864	32,185	37,639
Warehouse operations	228	4,055	-	4,283	11,730
Total Expenses Before Depreciation	<u>593,909</u>	<u>83,314,010</u>	<u>711,460</u>	<u>84,619,379</u>	<u>70,912,259</u>
Depreciation and amortization	<u>464</u>	<u>65,092</u>	<u>16,110</u>	<u>81,666</u>	<u>74,568</u>
Total Functional Expenses	<u>\$ 594,373</u>	<u>\$ 83,379,102</u>	<u>\$ 727,570</u>	<u>\$ 84,701,045</u>	<u>\$ 70,986,827</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2000

	Total All Funds December 31, 2001	Total All Funds December 31, 2000
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (9,190,786)	\$ 10,391,513
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
In-kind receipt of inventory	(72,413,876)	(76,811,999)
In-kind distribution of inventory	81,512,743	67,849,831
Depreciation and amortization	81,666	74,568
Gain (loss) on sale of investments	62,986	(10,428)
Unrealized gain (loss) on investments	130,374	85,276
Change in value of estate receivable	58,540	(128,345)
 Changes in operating assets and liabilities		
Accounts receivable	8,411	(12,347)
Pledges receivable	-	15,000
Contributions receivable	53,333	(52,258)
US AID receivable	(30,942)	7,911
Grants receivable	25,000	(20,000)
Prepaid expenses	(99,901)	(15,534)
Other assets	83,505	(1,103)
Accounts payable	(4,346)	(18,746)
Accrued compensated absences	5,508	(1,045)
Accrued expenses	(780)	(11,743)
Other liabilities	(2,006)	10
Net cash provided by operating activities	279,429	1,340,561
 Cash flows from investing activities:		
Purchases of property and equipment	(1,780)	(583,737)
Proceeds from sales and maturities of investments	478,840	412,227
Purchases of investments	(1,132,164)	(1,363,537)
Investment in gift annuities	(13,648)	4,881
Investment in unitrust	(3,938)	(2,244)
Contributions receivable from remainder unitrusts	403,934	53,104
Note receivable	-	6,000
Net cash used by investing activities	(268,756)	(1,473,306)
 Cash flows from financing activities:		
Reduction of capital lease obligation	(5,296)	(4,794)
Increase in line-of-credit	13	-
Principal reduction on first trust deed	(25,220)	(29,643)
Net cash used by financing activities	(30,503)	(34,437)
 Net decrease in cash and cash equivalents	(19,830)	(167,182)
 Cash and cash equivalents at beginning of year	1,037,321	1,204,503
 Cash and cash equivalents at end of year	\$ 1,017,491	\$ 1,037,321

See notes to financial statements

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 1: Summary of Significant Accounting Policies

Organization

Direct Relief International is organized as a California non-profit public benefit corporation to provide pharmaceuticals, medical supplies, equipment and services to medically less developed areas around the world and to provide medical assistance to victims of natural and man-made disasters.

Financial Statement Presentation

In 1995, the Organization adopted Statement of Financial Accounting Standards (SFAS) No.117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

The Organization also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made" in 1995. In accordance With SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises To Give (Pledges)

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Promises To Give (Pledges) (continued)

the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventory and In-kind Medical Contributions Received

Contributions of pharmaceutical and medical supplies are recorded on the books of account and in the financial statements 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.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their useful lives of five to forty years.

Investments

The Organization adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," in 1996. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

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.

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 gift annuities. The future interests in the trust and in the gift annuities are recorded as assets and valued at fair market value on the date of each gift. Investments in the trust and in the gift annuities are adjusted to market value each year-end. The present value of the total estimated future distributions to the donors on the date of each gift are recorded as liabilities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Note 2: 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.

<u>Fund</u>	<u>December 31, 2001</u>	
	<u>Cost</u>	<u>Fair Market Value</u>
Starbuck Tisdale Managed Account	\$1,721,855	\$1,525,820
Other equity investments	\$ 5,613	\$ 5,688

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 3: Due From Zimdin Estate

The Organization has a 56% equity interest in the William Zimdin Estate and Foundation, a co-tenancy consisting of the holders of remainder interests in certain property under the will of William Zimdin. The remaining asset in the form of real property, subject to a life estate in the decedent's widow, was sold in 1995. Total proceeds from the sale of the real property included a note receivable of \$ 571,797 and an investment in a condominium purchased for \$ 225,000. The Organization's share in the note receivable was \$ 323,049 and \$ 125,000 in the condominium. The note receivable was paid off during 1999 and the funds are being maintained in a certificate of deposit account. Elisabeth Zimdin continues to receive interest payments equal to 2.00% of the new certificate of deposit account balance annually. At the time of Elisabeth Zimdin's death, the remaining funds in the certificate of deposit account and the proceeds from the sale of the condominium will be disbursed to Direct Relief International and other parties. As the note balance was repaid during 1999, the Organization has reclassified its interest in the escrow funds to contributions from remainder unitrusts.

Note 4: Charitable Remainder Unitrust Agreements

During 1998, two separate donors established charitable remainder unitrusts in which the Organization has been named a charitable remainderman. Within each unitrust agreement, upon the death of all income beneficiaries named in the unitrust agreements, the Organization will receive a lump sum distribution of their proportionate share. Based upon the life expectancy of the income beneficiaries and a 8% discount rate, the present value of future benefits expected to be received by the Organization was estimated to be \$773,713, which was recorded in 1998 as a temporarily restricted contribution within the Endowment Fund and as a contribution receivable from remainder unitrust. During the year ended December 31, 2001, the Organization received partial distributions of \$303,934 from one of the unitrusts as a result of the death of an income beneficiary. For the year ended December 31, 2001, the Organization's interest in the above-mentioned charitable remainder unitrusts decreased by \$58,540. The total contributions receivable from remainder unitrusts is \$718,835 at December 31, 2001.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 5: Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2001</u>	<u>2000</u>
Office and Warehouse	\$ 3,022,150	\$ 3,022,150
Other real estate	530,000	530,000
Office equipment	131,123	126,873
Warehouse equipment	95,688	60,188
Bio-medical testing equipment	13,091	13,091
Computer equipment	89,282	73,552
Computer software	24,922	11,246
Delivery equipment	18,435	19,860
Leasehold improvements	<u>88,257</u>	<u>88,257</u>
Total	4,012,948	3,945,217
Accumulated depreciation	<u>(414,885)</u>	<u>(335,324)</u>
Net Property and equipment	<u>\$ 3,598,063</u>	<u>\$ 3,609,893</u>

Note 6: Debt

The Organization's long-term debt consists of the following at:

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Mortgage note payable, requiring monthly payments of \$ 9,442 including interest at 8.00%, maturing on October 1, 2007	\$ 1,204,595	\$ 1,220,826
Mortgage note payable, requiring monthly payments of \$ 3,222 including interest at 6.00%, maturing on November 1, 2007	\$ 489,563	\$ 498,552
Line-of-credit dated March 28, 2000, maximum available borrowing of \$500,000, interest payable monthly at 4.75% annual interest rate, due May 1, 2003	<u>13</u>	<u>-</u>
Total long-term debt	1,694,171	1,719,378
Less: current portion	<u>27,133</u>	<u>25,219</u>
Long-term portion	<u>\$ 1,667,038</u>	<u>\$ 1,694,159</u>

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 6: Debt (continued)

The mortgage notes are secured by the office and warehouse facility. The following is a summary of principal maturities of long-term debt during the next five years:

2002	\$ 27,133
2003	29,168
2004	31,373
2005	33,748
2006	36,306
Thereafter	<u>1,536,444</u>
Total	<u>\$1,694,172</u>

Note 7: Endowment Fund

As of March 1, 1998, the Board of Trustees created an Endowment Fund in the amount of \$773,786, consisting of certain assets previously included in the General Fund. Future funding of the Endowment Fund will consist of the following sources:

- 1) Estate gifts
- 2) Donor-restricted contributions to the endowment fund
- 3) Other resources designated by the board.

During the year ended December 31, 2001, the Organization received contributions in the amount of \$32,042 for the Endowment Fund while investment and other income for the Endowment Fund was \$(159,834). Total net assets of the Endowment Fund are \$3,814,924 at December 31, 2001.

Note 8: Contributed Freight

Contributed freight of \$283,568 and \$395,253 for the years ended December 31, 2001 and 2000, respectively, represents estimated shipping expenses incurred by other organizations on behalf of Direct Relief International in the shipment of medical supplies to foreign countries.

**DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 9: Pension Plan

The Organization has an employee participation pension plan. Employee contributions to the plan are matched by the Organization, up to a maximum of 5% of the employee's annual gross salary. The annuity costs associated with the plan for the years 2001 and 2000 were \$37,442 and \$38,522, respectively. All full-time employees with at least one Year of Service are eligible to participate in the plan.

Note 10: Non-Qualified Deferred Compensation Agreement

The Organization is party to a non-qualified deferred compensation agreement with the surviving spouse of a co-founder of the Organization. Under the terms of the agreement, beginning January 1, 1971, the Organization is obligated to make monthly payments in acknowledgement of his 23 years of service. The retirement agreement expense for 2001 and 2000 is \$ 9,920 and \$22,319, respectively.

Note 11: Related Party Transactions

During 2001 and 2000, members of the Organization's board of trustees made undesignated cash contributions to the Organization totaling \$138,725 and \$1,032,433, respectively, as part of each year's annual campaign.

Note 12: Contributed Services

The Organization records the estimated value of volunteer services that are an integral part of its operations. The estimated value of volunteer services is as follows:

	December 31, <u>2001</u>	December 31, <u>2000</u>
Warehouse operations	\$ 3,840	\$ 14,025
Medical volunteers	43,955	6,673
Field assessment volunteers	0	9,700
Legal and other professional	1,546	5,035
Program planning and coordination	<u>0</u>	<u>17,864</u>
	<u>\$ 49,341</u>	<u>\$ 53,297</u>

In addition to the above, the Organization received 1,199 hours of volunteer services of a non-professional, non-technical nature.

**DIRECT RELIEF INTERNATIONAL
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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 14: Supplemental Cash Flow Disclosures

The Organization paid interest of \$128,449 and \$138,072 for the years ended December 31, 2001 and 2000, respectively.

Note 15: 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 securities brokers. At December 31, 2001, the Organization was at risk for \$917,491 in cash deposited at individual financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures individual deposits up to \$100,000. The credit risk associated with accounts receivable has been recognized through the allowance for uncollectible accounts. In addition, the Organization's investments are exposed to various risks, such as interest rate, market and credit. 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 reasonable possible, that changes in risks in the near term would materially effect the Organization's statement of financial position and the statement of activities.

Note 16: Fair Value Of Financial Instruments

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2001 and 2000 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgement is necessarily required in interpreting market data to develop estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

Note 17: Capital Lease Obligation

During the year ended December 31, 1997, the Organization entered into a capital lease obligation for the acquisition of a forklift. The total capitalized cost of the forklift is \$ 22,485 and accumulated depreciation of the asset at December 31, 2001 is \$11,243. The following table breaks out the future lease obligations over the remaining life of the lease:

Gross payments	\$ 1,432
Less: interest	<u>24</u>
Net present value	1,408
Less: current portion	<u>1,408</u>
Long-term portion	<u>\$ 0</u>

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)
SCHEDULE I-STATEMENT OF FINANCIAL POSITION
RESTRICTED FUNDS
DECEMBER 31, 2001

	Endowment Fund	Friends of DRI	General Fund	Total All Funds December 31, 2001
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 793,177	\$ 3,319	\$ 73,975	\$ 870,471
Investment in marketable securities	1,525,820	-	-	1,525,820
TOTAL CURRENT ASSETS	<u>2,318,997</u>	<u>3,319</u>	<u>73,975</u>	<u>2,396,291</u>
Future interest in unitrust	47,880	-	-	47,880
Investment in gift annuity trust	30,413	-	-	30,413
Investment in condominium	125,000	-	-	125,000
Note receivable	10,000	-	-	10,000
Contributions from remainder unitrusts	718,835	-	-	718,835
Real estate	530,000	-	-	530,000
Due from other funds	33,799	-	-	33,799
TOTAL ASSETS	<u>\$ 3,814,924</u>	<u>\$ 3,319</u>	<u>\$ 73,975</u>	<u>\$ 3,892,218</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
LONG TERM LIABILITIES:				
Distributions payable - unitrust	\$ 23,124	-	-	\$ 23,124
Distributions payable - gift annuity trust	16,653	-	-	16,653
Due to other funds	-	238	-	238
TOTAL LONG-TERM LIABILITIES	<u>39,777</u>	<u>238</u>	<u>-</u>	<u>40,015</u>
TOTAL LIABILITIES	39,777	238	-	40,015
NET ASSETS	<u>3,775,147</u>	<u>3,081</u>	<u>73,975</u>	<u>3,852,203</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,814,924</u>	<u>\$ 3,319</u>	<u>\$ 73,975</u>	<u>\$ 3,892,218</u>

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
(A NON-PROFIT CORPORATION)

SCHEDULE II - STATEMENT OF ACTIVITIES
RESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	Endowment Fund	Friends of DRI	General Fund	Total All Funds December 31, 2001
PUBLIC SUPPORT AND REVENUE				
PUBLIC SUPPORT:				
Contributions	\$ 32,042	\$ -	\$ 63,986	\$ 96,028
In cash and securities	-	-	-	-
Interest in remainder unitrusts	-	-	58,560	58,560
Grants	-	-	122,546	154,588
TOTAL PUBLIC SUPPORT	32,042	-	122,546	154,588
REVENUE:				
Investment income	65,587	9	(1)	65,595
Realized loss on investments	(62,775)	-	-	(62,775)
Unrealized loss on investments	(117,679)	-	-	(117,679)
Change in value of estates receivable	(58,540)	-	-	(58,540)
Other income	13,573	-	-	13,573
TOTAL REVENUE	(159,834)	9	(1)	(159,826)
TOTAL PUBLIC SUPPORT AND REVENUE	(127,792)	9	122,545	(5,238)
Net Assets Released From Restrictions	(80,274)	-	(170,600)	(250,874)
	<u>(208,066)</u>	<u>9</u>	<u>(48,055)</u>	<u>(256,112)</u>
EXPENSES				
PROGRAM SERVICES:				
Medical supplies and related expenses	-	-	-	-
Net assets released from restrictions	-	-	-	-
Restrictions satisfied by payments	-	-	-	-
SUPPORTING SERVICES:				
Resource acquisition	-	-	-	-
Net assets released from restrictions	-	-	-	-
Restrictions satisfied by payments	-	-	-	-
TOTAL SUPPORTING SERVICES	-	-	-	-
TOTAL EXPENSES	-	-	-	-
INCREASE(DECREASE) IN NET ASSETS	\$ (208,066)	\$ 9	\$ (48,055)	\$ (256,112)

See notes to financial statements.

DIRECT RELIEF INTERNATIONAL
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SCHEDULE III - STATEMENT OF CHANGES IN NET ASSETS
RESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	Endowment Fund	Friends of DRI	General Fund	Total All Funds
Balance at December 31, 2000	\$ 3,983,213	\$ 3,072	\$ 122,030	\$ 4,108,315
Increase(decrease) in net assets	(208,066)	9	(48,055)	(256,112)
Balance at December 31, 2001	\$ 3,775,147	\$ 3,081	\$ 73,975	\$ 3,852,203

See notes to financial statements