

## Senior Meals Program, Inc.

### Transactions—January 20xx

Senior Meals Program, Inc. is a non-profit corporation that provides both served meals and delivered meals to area senior citizens.

Following is a list of business transactions affecting the program during the month of January 20xx. The organization had the following beginning balances as of January 1, 20xx:

Cash	\$10,000
Food Inventory	5,750
Equipment	45,000
Investments (permanently restricted)	100,000
Accounts Payable	25,000
Net Assets—Unrestricted	35,750
Net Assets—Permanently Restricted	100,000 (Note: investment income earned is unrestricted)

### *January Transactions*

1. Received cash contributions from several individuals and foundations in the amount of \$35,000. The donations are for general program operations.
2. Received a contribution from an anonymous donor in the amount of \$38,000 for the purchase of a new delivery van for the program.
3. Purchased kitchen and office supplies in the amount of \$5,455. Amount is due in 30 days.
4. Paid January rent for the building where the program operates, \$1,500.
5. Received payments from senior citizens participating in the daily served meals program totaling \$2,385 for the month.
6. Purchased the new delivery van. Final cost was \$38,750.
7. Investment income received on the permanently restricted investments for the month was \$425.
8. Received donated food, 50,000 lbs., valued at \$1.60/lb. from various grocery stores and local bakeries. Additionally, purchased food costing \$6,105.
9. The fair market value of the investments was \$101,428 at January 31, 20xx. The organization is not permitted to use the unrealized gains on the investments.
10. A local carpenter donated his time and the materials and built some shelves and customized storage cabinets for the kitchen area. The program had received bids for the work—fair value of the work performed was approximately \$3,400.

## Suggested Financial Indicators/Ratios for Non-Profit Organizations

Ratio or Indicator	Calculation and Observation(s)
<p><b>Current Ratio</b> Measures ability to meet current obligations</p>	<p>Current Assets / Current Liabilities Minimum ratio: Maximum ratio:</p>
<p><b>Cash on Hand (in days)</b> Measures cash available for operating expenses</p>	<p>Cash / (Total Operating Expenses – Depreciation) What should the number be?</p>
<p><b>Operating Reserves Ratio (%)</b> Measures ability to cover operating expenses from reserves</p>	<p>Unrestricted Net Assets / Total Operating Expenses</p>
<p><b>Government Revenue Dependency Ratio</b> Measures % of revenue derived from government sources</p>	<p>Government Revenue / Total Operating Revenue</p>
<p><b>Debt Ratio</b> Measures level of assets financed by debt</p>	<p>Total Liabilities / Total Assets What should the number be?</p>
<p><b>Profitability Ratio</b> Measures by which operating revenues exceed operating expenses</p>	<p>(Total Operating Revenue – Operating Expenses) / Total Operating Revenue</p>
<p><b>Administrative Ratio</b> Measures administrative expenses as % of total expenses</p>	<p>Administrative expenses / Total operating expenses Why is this ratio important? Who might be interested in this ratio?</p>
<p><b>Contributed Revenue Ratio</b> Measures contributions as a percentage of total operating revenue</p>	<p>Contribution Revenue/ + Net Earnings from Special Events) / Total Operating Revenue</p>

<p><b>Fund Raising Efficiency Ratio</b> Measures effectiveness of the fund raising effort</p>	<p>Fund Raising Expenses / Contributions Revenue Why is this important? Items to watch:</p>
<p><b>Net Asset Mix Ratio</b> Measures the organization's financial flexibility</p>	<p>Calculate each net asset category as % of total net assets</p>

*General Observations*

1. Watch the trend in the ratios; compare to prior years, comparable organizations (if available).
2. Set internal benchmarks and compare to them; modify as needed in response to changing conditions.

STATEMENT OF ACTIVITIES  
 SENIOR MEALS PROGRAM INC.  
 FOR THE MONTH ENDED JANUARY 31, 20XX

<u>Revenues and Support:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Contributions	\$ 35,000	\$ 38,000		\$ 73,000
Donated goods and services	83,400			83,400
Meal program revenue	<u>2,385</u>	<u>-</u>	<u>-</u>	<u>2,385</u>
Total Revenues and Support	120,785	38,000	-	158,785
Investment income	425			
Unrealized gain on investments			1,428	
Net Assets Released from Restrictions	<u>38,000</u>	<u>(38,000)</u>	<u>-</u>	<u>-</u>
	159,210	-	1,428	158,785
 <u>Expenses:</u>				
Food	87,305			87,305
Rent	1,500			1,500
Kitchen maintenance	<u>3,400</u>	<u>-</u>	<u>-</u>	<u>3,400</u>
	<u>92,205</u>	<u>-</u>	<u>-</u>	<u>92,205</u>
Increase in net assets	67,005	-	1,428	68,433
Net Assets--Beginning of Period	<u>35,750</u>	<u>-</u>	<u>100,000</u>	<u>135,750</u>
Net Assets--End of Period	<u>\$ 102,755</u>	<u>\$ -</u>	<u>\$ 101,428</u>	<u>\$ 204,183</u>



## NON-PROFIT FINANCIAL ANALYSIS EXERCISE

2010

2009

1. Current Ratio
2. Cash on Hand
3. Operating Reserves Ratio %
4. Government Revenue Dependency
5. Contribution Revenue Dependency
6. Debt Ratio
7. Profitability Ratio
8. Administrative Ratio
9. Fund Raising Efficiency Ratio
10. Net Asset Mix %

STATEMENT OF FINANCIAL POSITION  
ANYTOWN MEAL PROGRAM  
JUNE 30, 20XX

ASSETS

Current Assets

Cash	\$ 412,540
Accounts Receivable	2,590
Pledges Receivable	215,943
Less: Allowance for Uncollectible Pledges	<u>(80,000)</u>
	135,943
Food Inventory	<u>42,285</u>
Total Current Assets	593,358

Buildings 320,000

TOTAL ASSETS \$ 913,358.00

LIABILITIES AND NET ASSETS

Current Liabilities

Unearned Revenue \$ -

Net Assets

Unrestricted	437,415
Temporarily Restricted	125,943
Permanently Restricted	<u>350,000</u>
	<u>913,358</u>

TOTAL LIABILITIES AND NET ASSETS \$ 913,358



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
OFFICE OF THE AUDITOR GENERAL  
3101 PARK CENTER DRIVE  
ALEXANDRIA, VA 22302-1596

A-2011-0011-FFR

26 October 2010

## Independent Auditor's Report

This report presents the results of our review of the independent certified public accountant's audit of the American Red Cross consolidated financial statements for the fiscal year ended 30 June 2010. In the auditor's opinion, the American Red Cross statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The American Red Cross is the instrument chosen by an act of Congress, approved 5 January 1905, to help carry out obligations assumed by the United States under certain international treaties known as the Geneva or Red Cross Conventions. Its congressional charter imposes on the American Red Cross the duties to act as the medium of voluntary relief and communications between the American people and the Armed Forces and to carry on a system of national and international relief to prevent and mitigate suffering caused by disasters.

The Act of Congress that incorporates the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and AR 930-5 (American National Red Cross Service Program and Army Utilization), requires U.S. Army Audit Agency to perform an annual audit of the consolidated financial statements of the American Red Cross. The American Red Cross contracted with the certified public accounting firm of KPMG LLP as the principal auditor to perform a financial audit of its 2010 consolidated financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and best use our available resources, we reviewed the principal auditor's work and reports.

We conducted our review of the principal auditor's work in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. To determine the reasonableness of the principal auditor's work and the extent to which we could rely on it, we:

- Reviewed the principal auditor's approach and planning of the audit.
- Evaluated the qualifications and independence of the audit staff.

- Reviewed the consolidated financial statements and principal auditor's report to evaluate compliance with generally accepted accounting principles
- Reviewed and tested the principal auditor's working papers to determine (i) the nature, timing, and extent of the audit work performed; (ii) the extent of audit quality control methods the auditor used; (iii) whether a study and evaluation were conducted of the entity's internal accounting controls; and (iv) whether the evidence in the working papers supported the principal auditor's opinion on the consolidated financial statements.

In the opinion of KPMG LLP, the consolidated financial statements present fairly, in all material respects, the financial position of the American Red Cross, as of 30 June 2010, and the changes in its net assets and cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During our review, we found nothing to indicate KPMG LLP's opinion on the American Red Cross 2010 consolidated financial statements is inappropriate or cannot be relied upon.

We believe the consolidated financial statements, together with the KPMG LLP opinion and our review of that work, provide Congress with a dependable basis for evaluating the financial position of the American Red Cross. This report presents the American Red Cross consolidated financial statements and the auditor's opinion thereon.

We are sending copies of this report to the American Red Cross Board of Governors.

  
RANDALL L. EXLEY, CPA  
The Auditor General



**THE AMERICAN NATIONAL RED CROSS**

Consolidated Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## Independent Auditors' Report

The Board of Governors  
The American National Red Cross:

We have audited the accompanying consolidated statement of financial position of the American National Red Cross (the Organization) as of June 30, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain chapters, which statements reflect total assets constituting 25% and total operating revenues and gains constituting 17% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for such chapters, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the Organization's 2009 consolidated financial statements and, in our report dated October 15, 2009, we expressed an unqualified opinion on those consolidated financial statements.

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 misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American National Red Cross as of June 30, 2010, and the changes in its net assets, its cash flows and its functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 13, 2010

# THE AMERICAN NATIONAL RED CROSS

## Consolidated Statement of Financial Position

June 30, 2010  
(with comparative information as of June 30, 2009)  
(In thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 407,204	\$ 214,606
Investments (Note 8)	798,060	590,759
Trade receivables, including grants, net of allowance for doubtful accounts of \$3,713 in 2010 and \$3,576 in 2009	81,473	130,969
Contributions receivable (Note 3)	75,955	78,464
Inventories, net of allowance for obsolescence of \$2,217 in 2010 and \$1,922 in 2009	129,756	149,897
Other current assets	16,068	21,062
<b>Total current assets</b>	<b>1,508,516</b>	<b>1,185,757</b>
Investments (Note 8)	1,076,601	1,003,962
Contributions receivable (Note 3)	23,944	20,438
Land, buildings, and other property, net (Note 4)	1,090,532	1,143,697
Other assets (Note 9)	161,769	164,371
<b>Total assets</b>	<b>3,861,362</b>	<b>3,518,225</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	371,044	323,585
Current portion of debt (Note 5)	39,812	115,613
Postretirement benefits (Note 10)	4,616	4,777
Other current liabilities (Note 9)	26,165	28,377
<b>Total current liabilities</b>	<b>441,637</b>	<b>472,352</b>
Debt (Note 5)	552,245	497,681
Pension and postretirement benefits (Note 10)	757,676	724,237
Other liabilities (Notes 5 and 9)	150,917	151,489
<b>Total liabilities</b>	<b>1,902,475</b>	<b>1,845,759</b>
Net assets (Notes 2 and 7):		
Unrestricted net assets	448,142	459,983
Temporarily restricted net assets	884,910	620,214
Permanently restricted net assets	625,835	592,269
<b>Total net assets</b>	<b>1,958,887</b>	<b>1,672,466</b>
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)		
<b>Total liabilities and net assets</b>	<b>\$ 3,861,362</b>	<b>\$ 3,518,225</b>

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Activities

Year ended June 30, 2010  
 (with summarized information for the year ended June 30, 2009)  
 (In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2010	2009
<b>Operating revenues and gains:</b>					
Contributions:					
Corporate, foundation and individual giving	\$ 199,226	\$ 561,890	\$ -	\$ 761,116	\$ 384,085
United Way and other federated	40,177	79,648	-	119,825	129,913
Legacies and bequests	52,555	12,820	27,121	92,496	92,364
Services and materials	16,514	18,374	-	34,888	49,783
Grants	13,659	39,153	-	52,812	81,646
Products and services:					
Biomedical	2,219,162	-	-	2,219,162	2,213,961
Program materials	145,190	136	-	145,326	149,608
Contracts, including federal government	89,282	-	-	89,282	129,778
Investment income (Note 8)	18,843	29,752	-	48,595	75,501
Other revenues	41,206	(273)	-	40,933	13,630
Net assets released from restrictions	526,240	(526,240)	-	-	-
<b>Total operating revenues and gains</b>	<b>3,362,054</b>	<b>215,260</b>	<b>27,121</b>	<b>3,604,435</b>	<b>3,320,269</b>
<b>Operating expenses:</b>					
Program services:					
Services to the Armed Forces	65,300	-	-	65,300	56,511
Biomedical services (Note 13)	2,194,789	-	-	2,194,789	2,216,730
Community services	105,278	-	-	105,278	113,846
Domestic disaster services	268,864	-	-	268,864	402,372
Health and safety services	216,946	-	-	216,946	215,492
International relief and development services	250,993	-	-	250,993	156,042
<b>Total program services</b>	<b>3,102,170</b>	<b>-</b>	<b>-</b>	<b>3,102,170</b>	<b>3,160,993</b>
Supporting services:					
Fund raising (Note 12)	130,193	-	-	130,193	126,580
Management and general	138,472	-	-	138,472	152,473
<b>Total supporting services</b>	<b>268,665</b>	<b>-</b>	<b>-</b>	<b>268,665</b>	<b>279,053</b>
<b>Total operating expenses</b>	<b>3,370,835</b>	<b>-</b>	<b>-</b>	<b>3,370,835</b>	<b>3,440,046</b>
Change in net assets from operations	(8,781)	215,260	27,121	233,600	(119,777)
Nonoperating gains (losses) (Notes 5 and 7)	82,616	49,436	6,445	138,497	(359,064)
Pension-related changes other than net periodic benefit cost (Note 10)	(85,676)	-	-	(85,676)	(408,330)
Change in net assets	(11,841)	264,696	33,566	286,421	(887,171)
Net assets, beginning of year	459,983	620,214	592,269	1,672,466	2,559,637
<b>Net assets, end of year</b>	<b>\$ 448,142</b>	<b>\$ 884,910</b>	<b>\$ 625,835</b>	<b>\$ 1,958,887</b>	<b>\$ 1,672,466</b>

See accompanying notes to the consolidated financial statements.



**THE AMERICAN NATIONAL RED CROSS**

Statement of Functional Expenses

Year ended June 30, 2010  
(with summarized information for the year ended June 30, 2009)  
(In thousands)

	Program Services					Total Program Services
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	
Salaries and wages	\$ 31,069	\$ 973,465	\$ 43,830	\$ 89,999	\$ 97,821	\$ 1,256,353
Employee benefits	7,627	239,379	11,294	23,110	24,819	311,217
Subtotal	38,696	1,212,844	55,124	113,109	122,640	1,567,570
Travel and maintenance	1,449	28,971	1,801	9,589	2,670	48,461
Equipment maintenance and rental	1,487	69,356	4,034	7,975	3,894	88,980
Supplies and materials	4,342	523,633	12,316	11,120	36,945	589,491
Contractual services	12,639	305,411	15,783	54,511	39,659	461,790
Financial and material assistance	5,358	3,431	12,129	59,916	3,227	267,955
Depreciation and amortization	1,329	51,143	3,891	12,644	7,911	77,923
Total expenses	\$ 65,300	\$ 2,194,789	\$ 105,278	\$ 268,864	\$ 216,946	\$ 3,102,170

**Supporting Services**

	Supporting Services		Total Expenses
	Management and General	Total Supporting Services	
Salaries and wages	\$ 55,104	\$ 123,324	\$ 1,378,901
Employee benefits	13,633	30,962	357,662
Subtotal	68,737	154,286	1,736,563
Travel and maintenance	2,742	5,334	77,584
Equipment maintenance and rental	1,458	4,837	99,595
Supplies and materials	12,684	16,256	616,929
Contractual services	39,386	73,485	567,617
Financial and material assistance	1,926	2,997	242,884
Depreciation and amortization	3,260	11,470	98,874
Total expenses	\$ 130,193	\$ 138,472	\$ 3,370,835

See accompanying notes to the consolidated financial statements.

# THE AMERICAN NATIONAL RED CROSS

## Consolidated Statement of Cash Flows

Year ended June 30, 2010  
(with comparative information for the year ended June 30, 2009)  
(In thousands)

	2010	2009
Cash flows from operating activities:	\$ 286,421	\$ (887,171)
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	89,393	98,874
Provision for doubtful accounts receivable	4,732	4,578
Provision for obsolete inventory	5,024	574
Net loss (gain) on abandonment and disposal of property	12,926	(2,330)
Net investment and derivative (gains) losses	(124,733)	344,173
Pension related changes other than net periodic benefit costs	85,676	408,330
Permanently restricted contributions	(27,121)	(25,883)
Changes in operating assets and liabilities:		
Receivables	43,745	(43,860)
Inventories	15,116	2,876
Other assets	7,624	(24,184)
Accounts payable and accrued expenses	47,454	(17,949)
Other liabilities	(2,316)	18,710
Pension and postretirement benefits	(52,398)	(12,514)
<b>Net cash provided by (used in) operating activities</b>	<b>391,543</b>	<b>(135,776)</b>
Cash flows from investing activities:	(55,605)	(85,318)
Purchases of property	6,451	9,065
Proceeds from sales of property	(467,655)	(93,788)
Purchases of investments	312,013	265,339
Proceeds from sales of investments		
<b>Net cash (used in) provided by investing activities</b>	<b>(204,796)</b>	<b>95,298</b>
Cash flows from financing activities:	27,087	25,292
Permanently restricted contributions	225,646	87,504
Proceeds from borrowings	(246,882)	(78,509)
Repayments of debt		
<b>Net cash provided by financing activities</b>	<b>5,851</b>	<b>34,287</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>192,598</b>	<b>(6,191)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>214,606</b>	<b>220,797</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 407,204</b>	<b>\$ 214,606</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 19,439	\$ 23,233
Noncash investing and financing transactions:		
Acquisition of equipment under capital lease agreements	\$ -	\$ 178
Donated stock and beneficial interest in perpetual trust	\$ 223	\$ 127

See accompanying notes to the consolidated financial statements.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

### (1) Summary of Significant Accounting Policies

**Organization and Basis of Presentation:** The American National Red Cross (the Organization) was established by an Act of the United States Congress on January 5, 1905 for the primary purposes of furnishing volunteer aid to the sick and wounded of the Armed Forces in time of war and to carry on a system of national and international relief in time of peace to mitigate the suffering caused by fire, famine, floods and other great natural calamities. The mission of the Organization has expanded since that time to help people prevent, prepare for, and respond to emergencies.

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets and cash flows of the Organization. The Organization has national and international programs that are conducted by its headquarters, biomedical services, and chartered local chapters. Also included in the consolidated financial statements are the net assets and operations of Boardman Indemnity Ltd., a 100 percent owned captive insurance subsidiary, and ARC Receivables Company, LLC, a wholly owned bankruptcy-remote special purpose entity. All significant intra-organizational accounts and transactions have been eliminated.

Program activities include services to the Armed Forces, biomedical services, community services, disaster services, health and safety services, and international services. Biomedical services includes activities associated with the collection, processing, testing, and distribution of whole blood and components at 35 local blood services region operations, five national testing laboratories, a biomedical research facility, and related national support functions.

Net assets, 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* – Net assets that are not subject to any donor-imposed stipulations.

*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. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

The consolidated financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2009, from which the summarized information was derived.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**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. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. 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 consisted of money market mutual funds and overnight investments of approximately \$230 million and \$84 million as of June 30, 2010 and 2009, respectively.

**Investments:** Investments are reported at fair value except for certain commingled funds and alternative funds that are reported at estimated fair value utilizing net asset values. In accordance with Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, net asset value is used as a practical expedient to estimate fair value of these funds. Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2010. The Organization reviews and evaluates the net asset values provided by the general partners and fund managers and agrees with the valuation methods and assumptions used in determining net asset values of these funds. The separately managed endowment fund accumulates realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Governors. Amounts annually available for expenditure are based on the Board of Governors' approved spending rate using under the total-return method.

Investment income classified as operating revenue consists of interest and dividend income on investments and any gains approved for use in operations (Note 8). All other realized and unrealized gains or losses are classified as nonoperating activity and are available to support operations in future years and to offset potential market declines.

Investments classified as current are available for operations in the next fiscal year.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**Derivative Financial Instruments:** The Organization makes limited use of derivative financial instruments for the purpose of managing interest rate risk. Derivative financial instruments are recorded at fair value.

**Fair Values of Financial Instruments:** Investments are reported at fair value or estimated fair value (Note 8). For fair value disclosure purposes, debt is valued at rates currently available to the Organization for issuances with similar terms and remaining maturities. Interest rate swap agreements are valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in those agreements adjusted for nonperformance risk of both the counterparty and the Organization. The carrying value of all other financial instruments approximates fair value.

The estimated fair value of the Organization's noncurrent debt was as follows at June 30, 2010 and 2009 (in thousands):

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Noncurrent debt	\$ 552,245	574,169	497,681	495,513

**Endowment Fund:** The Organization has maintained a national endowment fund since 1905. Since 1910, as stated in the bylaws of the Organization and because of public declarations as to their intended use, gifts to the American National Red Cross national headquarters under wills, trusts, and similar instruments which do not direct some other use of such funds are recorded as permanently restricted endowment funds to be kept and invested in perpetuity. Based upon the manner in which the Organization has solicited and continues to solicit such gifts, it has been determined by independent legal counsel that such gifts must be placed in the endowment fund and, accordingly, reported as permanently restricted net assets.

**Inventories:** Inventories of supplies purchased for use in program and supporting services are valued using the average cost method. Whole blood and its components are valued at the lower of average cost or market.

**Land, Buildings, and Other Property:** Purchases of land, buildings, and other property having a unit cost per established guidelines and a useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Interest expense incurred during a period of construction, less related interest income earned on proceeds of tax-exempt borrowings, is capitalized. Property under capital leases is amortized over the lease term. Any gain or loss on the sale of land, buildings and other property is reported as other revenues on the consolidated statement of activities.

Application development costs incurred to develop internal-use software are capitalized and amortized over the expected useful life of the software application. Activities that are considered application development include design of software configuration and interfaces, coding, installation of hardware, and testing. All other expenses incurred to develop internal-use software are expensed as incurred.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Class of property</u>	<u>Useful life in years</u>
Buildings	45
Building improvements	10
Equipment and software	3 – 15

**Long-Lived Assets:** Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**Property and Casualty Insurance:** The Organization maintains various insurance policies under which it assumes a portion of each insured loss. Assumed losses are retained by the Organization through its wholly owned insurance subsidiary, Boardman Indemnity, Ltd. (Boardman). The Organization also purchases insurance to supplement the coverage by Boardman. The liabilities for outstanding losses and incurred but not reported claims have been determined based on actuarial studies and are reported as other liabilities in the consolidated statement of financial position, and was approximately \$110 million for both years ended at June 30, 2010 and 2009.

**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 substantially 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 stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

Products and services revenue, which arises principally from sales of whole blood and components and health and safety course fees, is generally recognized upon shipment of the product or services to the customer.

Revenues from federal agencies are generally reported as unrestricted contract revenue as qualifying expenses are incurred under the agreement.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

**Contributed Services and Materials:** Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial 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 contributed services revenue and related expense for the years ended June 30, 2010 and 2009 of approximately \$4 million and \$5 million, respectively, mostly in support of the disaster services program.

Donated materials are recorded at their fair value at the date of the gift. Gifts of long-lived assets are recorded as restricted support. This restriction is released ratably over the useful life of the asset.

**Research and Development Costs:** Since 1956, the Organization has engaged in blood research to further enhance the safety of the blood supply. For both years ended June 30, 2010 and 2009, research and development expenses incurred by Biomedical Services was approximately \$6 million.

**Income Taxes:** The American National Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. For the years ended June 30, 2010 and 2009, the Organization has determined that no income taxes are due for its activities. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

**Accounts Receivable Securitization:** The Organization has an accounts receivable securitization program whereby the Organization sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. The Organization accounts for the program under Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*. The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Organization estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates (Note 11).



# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**Recently Issued Accounting Standards:** The Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* (FASB Statement No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*) in December 2009. ASU 2009-16 removes the concept of a qualifying special-purpose entity (QSPE) from Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*, and the exception from applying ASC 810-10 to QSPEs, thereby requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered QSPEs. Transferor-imposed constraints on transferees whose sole purpose is to engage in securitization or asset-backed financing activities are evaluated in the same manner under the provisions of the ASU as transferor-imposed constraints on QSPEs were evaluated under the provisions of Topic 860 prior to the effective date of the ASU when determining whether a transfer of financial assets qualifies for sale accounting. The ASU also clarifies the Topic 860 sale-accounting criteria pertaining to legal isolation and effective control and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. The ASU is effective for periods beginning after December 15, 2009, and may not be early adopted. The Organization expects that the adoption of ASU 2009-16 will not have a material impact on its financial position.

**Reclassifications:** Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

### (2) Endowments

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Organization is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. 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.

The Organization has adopted and the Governing Board has approved the Statement of Investment Policies and Objectives for the endowment fund. This policy has identified an appropriate risk posture for the fund, stated expectations and objectives for the fund, provides asset allocation guidelines and establishes criteria to monitor and evaluate the performance results of the fund's managers. The Organization expects the endowment fund to provide an average real rate of return of 5 percent annually.

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 makes distributions from income earned on the endowment fund for current operations using the total return method. In establishing this method, the Organization considered the long-term expected return on its funds. Under the total return method, distributions consist of net investment income



**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

and may, under certain conditions, include a portion of the cumulative realized and unrealized gains. The Board of Governors approves the spending rate, calculated as a percentage of the five-year calendar trailing average fair value of the endowment fund at the beginning of each fiscal year.

A spending rate of approximately 3.8 percent for 2010 and 4.7 percent for 2009 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately \$28 million and \$33 million for the years ended June 30, 2010 and 2009, respectively. Approximately \$14 million and \$17 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2010 and 2009, respectively. A spending rate of approximately 3.8 percent of the trailing five-year market value has been approved for 2011.

Net asset classification by type of endowment as of June 30, 2010 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	215,313	499,275	714,588

Changes in endowment net assets for the year ended June 30, 2010 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	167,459	477,349	644,808
Investment return:				
Investment income	—	28,135	—	28,135
Net appreciation (realized and unrealized gains and losses)	—	47,969	—	47,969
Total investment return	—	76,104	—	76,104
Contributions	—	—	21,926	21,926
Appropriation of endowment assets for expenditure	—	(28,250)	—	(28,250)
	\$ —	215,313	499,275	714,588

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Net asset classification by type of endowment as of June 30, 2009 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	167,459	477,349	644,808

Changes in endowment net assets for the year ended June 30, 2009 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	325,285	447,292	772,577
Investment return:				
Investment income	—	32,491	—	32,491
Net depreciation (realized and unrealized gains and losses)	—	(157,690)	—	(157,690)
Total investment return	—	(125,199)	—	(125,199)
Contributions	—	—	30,057	30,057
Appropriation of endowment assets for expenditure	—	(32,627)	—	(32,627)
	\$ —	167,459	477,349	644,808

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**(3) Contributions Receivable**

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Amount receivable within one year	\$ 77,556	80,212
Amounts receivable in 1 to 5 years (net of discount of \$3,044 and \$3,755 for 2010 and 2009, respectively)	<u>23,944</u>	<u>20,439</u>
Total contributions receivable before allowance for uncollectible amounts	101,500	100,651
Less allowance for uncollectible amounts	<u>(1,601)</u>	<u>(1,749)</u>
Contributions receivable, net	99,899	98,902
Less current portion	<u>75,955</u>	<u>78,464</u>
Contributions receivable, net, noncurrent	\$ <u><u>23,944</u></u>	<u><u>20,438</u></u>

Amounts presented above have been discounted to present value using various discount rates. The Organization had commitments from donors for conditional contributions approximating \$0.9 million and \$2 million at June 30, 2010 and 2009, respectively. These pledges will be accrued in future periods as the conditions are met.

**(4) Land, Buildings, and Other Property**

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Land	\$ 119,362	106,087
Buildings and improvements	1,151,207	1,119,772
Equipment and software	623,811	667,858
Buildings and equipment under capital lease	<u>6,951</u>	<u>7,041</u>
Total cost of assets placed in service	1,901,331	1,900,758
Less accumulated depreciation and amortization	<u>(894,582)</u>	<u>(858,387)</u>
Construction-in-progress	83,783	101,326
Land, buildings, and other property, net	\$ <u><u>1,090,532</u></u>	<u><u>1,143,697</u></u>

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**(5) Debt**

Debt consists of the following at June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Borrowings on lines of credit, due in 2009 through 2010, bearing interest at an average rate of 2.4% in 2009	\$ —	\$ 220,000
Various notes, mortgages and bonds payable, bearing interest at rates ranging from 0.1% to 5.85% due 2011 through 2036, repayment terms generally require monthly payments of interest and annual principal reductions, and are generally backed only by the full faith and credit of the American National Red Cross	<u>591,295</u>	<u>392,041</u>
Total bonds and notes payable	591,295	612,041
Obligations under capital leases (Note 6)	<u>762</u>	<u>1,253</u>
Total debt	592,057	613,294
Less current portion	<u>39,812</u>	<u>115,613</u>
Debt, noncurrent portion	<u>\$ 552,245</u>	<u>\$ 497,681</u>

Certain bonds are subject to redemption prior to maturity at the option of the Organization. Additionally, registered owners of these bonds may demand repurchase of the bonds by the bond agent or the depository for an amount equal to the principal price plus accrued interest. Letters of credit or standby credit facilities have been established with multiple banks in the aggregate amount of \$240 million as of both June 30, 2010 and 2009, respectively, to provide liquidity in the event other funding is not available to repurchase these bonds. The depository and bond agent have the authority to use standby credit facilities for the repurchase of certain bonds.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2010 are as follows (in thousands):

2011	\$ 39,812
2012	34,099
2013	35,853
2014	9,388
2015	8,740
Thereafter	<u>464,165</u>
Total	<u>\$ 592,057</u>

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Interest expense was approximately \$24 million and \$23 million for the years ended June 30, 2010 and 2009, respectively, which is included in contractual services on the statement of functional expenses.

**Bank Lines of Credit:** The Organization maintained numerous uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2010 there are no borrowings outstanding under lines of credit. At June 30, 2009, \$220 million had been borrowed under lines of credit to support operations. The Organization had unused lines of credit outstanding of approximately \$420 million at June 30, 2010. The amounts available to be borrowed on the lines of credit are subject to the limitations of the Organization's debt covenants.

**Interest Rate Swap Agreements:** The Organization held variable rate debt of approximately \$289 million and \$461 million at June 30, 2010 and 2009, respectively. Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. The interest rate swap agreements are derivative instruments that are required to be marked to fair value and recorded on the statement of financial position. At June 30, 2010 and 2009, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2011 through 2013, totaled \$60 million for both years. The estimated fair value of the interest rate swap agreements was a liability of approximately \$3.2 million and \$3.6 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2010 and 2009.

The change in fair value on these interest rate swap agreements was a loss of approximately \$0.5 million and \$2.4 million for the years ended June 30, 2010 and June 30, 2009, respectively, and is included as nonoperating gains (losses) in the consolidated statement of activities.

The following table represents the interest rate swap liability that is measured at fair value on a recurring basis at June 30, 2010 and 2009 (in thousands):

	Fair Value Measurements		
	Level 1	Level 2	Level 3
Interest rate swap liability at June 30, 2010	\$ —	\$ 3,173	\$ —
Interest rate swap liability at June 30, 2009	\$ —	\$ 3,641	\$ —

For the valuation of the interest rate swap at June 30, 2010 and 2009, the Organization used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Organization. See note 8 for definitions of Levels 1, 2 and 3.

**Letters of Credit:** The Organization had unused letters of credit outstanding of approximately \$60 million at June 30, 2010.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**(6) Leases**

The Organization leases certain buildings and equipment for use in its operations. The following summarizes minimum future rental payments under capital and noncancelable operating leases for the fiscal years ending June 30 (in thousands):

	<b>Operating</b>	<b>Capital</b>
2011	\$ 33,476	469
2012	25,895	224
2013	19,469	83
2014	11,477	26
2015	7,688	7
Thereafter	13,327	14
Total minimum lease payments	\$ 111,332	823
Less amounts representing interest		(61)
Present value of net minimum lease payments (Note 5)		\$ 762

Total rent expense was approximately \$54 million and \$64 million for the years ended June 30, 2010 and 2009, respectively and is included in contractual services on the consolidated statement of functional expenses.

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2010, are as follows (in thousands):

2011	\$ 11,209
2012	11,607
2013	11,745
2014	11,886
2015	12,032
Thereafter	62,503
Total minimum lease payments to be received	\$ 120,982

Total rental income was approximately \$8.8 million for the year ended June 30, 2010, and is included in other revenues on the consolidated statement of activities.

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**(7) Net Assets**

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Disaster services	\$ 97,699	145,112
Biomedical services	8,439	8,431
Health and safety services	2,582	2,908
International relief and development services	425,374	145,411
Community services	9,243	11,687
Buildings and equipment	15,635	28,040
Endowment inflation adjustment reserve	146,989	141,000
Endowment assets available for future appropriation	68,324	26,459
Other specific purposes	24,694	28,731
Time restricted	85,931	82,435
Total temporarily restricted net assets	\$ <u>884,910</u>	<u>620,214</u>

Permanently restricted net assets at June 30, 2010 and 2009 consist primarily of endowed contributions, the income from which is available principally to fund general operations. Other permanently restricted net assets consist of beneficial interests in perpetual trusts and other split interest agreements (Note 9).

**(8) Investments**

The Organization applies the provisions of FASB ASC 820 (formerly, SFAS No. 157), *Fair Value Measurements and Disclosures*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical investments in active markets.
- Level 2 inputs are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 are model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

value measurement. The management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Investments measured using net asset value are considered Level 2 if they are redeemable at or near year-end otherwise they are considered Level 3.

The following tables represent investments that are measured at fair value on a recurring basis at June 30, 2010 and 2009 (in thousands):

	<b>Fair value measurements at June 30, 2010</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
U.S. government securities	\$ 42,963	101,854	—	144,817
Corporate bonds and notes	17,934	258,968	—	276,902
Common and preferred stocks	210,460	107,203	—	317,663
Mortgage and asset backed securities	—	97,128	904	98,032
Marketable and nonmarketable alternative funds	—	—	475,395	475,395
Commodities	—	14,821	—	14,821
Money market and other	153,049	393,982	—	547,031
<b>Total investments</b>	<b>\$ 424,406</b>	<b>973,956</b>	<b>476,299</b>	<b>1,874,661</b>
Less current portion				798,060
Investments, noncurrent				<b>\$ 1,076,601</b>



**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

	Fair value measurements at June 30, 2009			Total
	Level 1	Level 2	Level 3	
U.S. government securities	\$ 56,361	51,059	—	107,420
Corporate bonds and notes	13,372	204,773	—	218,145
Common and preferred stocks	195,526	113,993	—	309,519
Mortgage and asset backed securities	—	112,662	985	113,647
Marketable and nonmarketable alternative funds	—	—	465,930	465,930
Commodities	—	11,078	—	11,078
Money market and other	177,510	191,472	—	368,982
Total investments	\$ 442,769	685,037	466,915	1,594,721
Less current portion				590,759
Investments, noncurrent				\$ 1,003,962

For the valuation of certain government, corporate, preferred obligation bonds, bond mutual funds, common and preferred stock and common stock mutual funds at June 30, 2010 and 2009, the Organization used quoted prices in principal active markets for identical assets as of the valuation date (Level 1).

For the valuation of certain other government, corporate, preferred obligation bonds, bond mutual and commingled funds, common and preferred stock and common stock mutual and commingled funds at June 30, 2010 and 2009, the Organization used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2).

For the valuation of marketable and nonmarketable alternative funds, the equity interest in the participating annuity (Note 10), the guaranteed accumulation fund (Note 10), and mortgage and asset backed securities at June 30, 2010 and 2009, the Organization used significant unobservable inputs including information from fund managers or general partners based on quoted market prices, if available, or other valuation methods (Level 3). Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The following table presents the Organization's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the year ended June 30, 2010 and 2009 (in thousands):

	<u>Mortgage and asset backed securities</u>	<u>Alternative funds</u>	<u>Total</u>
Balance at June 30, 2008	\$ 1,839	590,903	592,742
Total realized and unrealized losses	(529)	(89,688)	(90,217)
Purchases, issuance, and settlements (net)	<u>(325)</u>	<u>(35,285)</u>	<u>(35,610)</u>
Balance at June 30, 2009	\$ 985	465,930	466,915
Total realized and unrealized gains	80	54,669	54,749
Purchases, issuance, and settlements (net)	<u>(161)</u>	<u>(45,204)</u>	<u>(45,365)</u>
Balance at June 30, 2010	<u>\$ 904</u>	<u>475,395</u>	<u>476,299</u>
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2010	<u>\$ 10</u>	<u>31,959</u>	<u>31,969</u>
Total losses for the period included in income attributable to the change in unrealized losses at June 30, 2009	<u>\$ (752)</u>	<u>(138,711)</u>	<u>(139,463)</u>

Investments in public equity commingled funds and fixed income commingled funds of approximately \$295 million and \$437 million and investments in alternative funds of approximately \$475 million and \$466 million are reported at estimated fair value utilizing net asset values as of June 30, 2010 and 2009, respectively.

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The following summarizes the nature and risk of these investments as of June 30, 2010 (in thousands):

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fund of hedge funds (a)	\$ 74,047	\$ —	annually, tri-annually monthly, quarterly,	100 days
Global macro hedge funds (b)	21,846	—	annually monthly, quarterly,	5- 60 days
Hedged equity funds (c)	145,611	—	annually monthly, quarterly,	14- 90 days
Multistrategy and other hedge funds (d)	64,991	—	annually, bi-annually, tri- annually	7- 90 days
Buyout and growth equity funds (e)	78,004	60,898	—	—
Distressed debt and turnaround funds (f)	40,099	8,998	—	—
Private real estate funds (g)	20,030	18,898	—	—
Venture capital funds (h)	14,133	8,506	—	—
Commodity sensitive private equity and infrastructure funds (i)	21,392	12,222	—	—
Public equity commingled funds (j)	102,841	—	weekly, monthly	1- 30 days
Fixed income commingled funds (k)	191,922	—	weekly, monthly	1- 30 days
Total	<u>\$ 774,916</u>	<u>\$ 109,523</u>		

(a) This category is invested in a fund of hedge funds. Underlying hedge fund strategies primarily include hedged equity, multistrategy, relative value, event driven and arbitrage strategies. The fair values of these investments have been estimated using the net asset value per share of the investments. While this is a single fund of funds, the Organization is invested in multiple share classes. As of June 30, 2010, approximately 40 percent of the value of these investments is available for redemption on any December 31 and approximately 60 percent of the value of these investments is next available for redemption on December 31, 2012 and then every three years thereafter.

(b) This category is invested in global macro hedge funds. Underlying investments are primarily liquid instruments and their derivatives in fixed income, currency, commodities and equities. The funds include short positions as well as long positions and use leverage. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Several funds have legacy investments that have been segregated into illiquid vehicles – the value of these portions of the funds make up approximately 4 percent of the value of the investments in this category. The time at which these segregated investments will be liquidated cannot be estimated.

(c) This category is invested in hedge funds that invest primarily in U.S. and international equities as well as derivatives. These funds include short positions as well as long positions and use leverage. The fair

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

values of the investments in this category have been estimated using the net asset value per share of the investments.

(d) This category is invested in hedge funds that are not exclusively global macro or hedged equity. Strategies include relative value, event driven, and arbitrage. Underlying investments are typically the same as the types invested in both the public equity and fixed income commingled categories as well as derivatives. The funds include short positions as well as long positions and use leverage. Some funds may invest in private investments which are typically segregated into "side pockets" (a separate share class) and are not available for redemption until the investment is liquidated by the manager. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Approximately 4 percent of the value of the investments in this category is in funds in which full redemptions have been submitted but redemptions have been suspended and/or remaining investments are in side pockets. In addition, several funds that have not been redeemed have investments which are in side pockets – collectively these represent approximately 3.5 percent of the value of investments in this category. The time at which the investments in side pockets will be liquidated cannot be estimated.

(e) This category is invested in private equity funds and private equity funds of funds in the U.S. and outside of the U.S. whose mandates include leveraged buyouts and growth equity investments in companies. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital. The funds in this category do not permit redemptions.

(f) This category is invested in funds which primarily invest in distressed situations. Investments include marketable securities such as debt obligations and asset backed securities as well as non-marketable investments such as nonperforming and subperforming real estate loans, consumer loans, and distressed debt. Some funds include short positions. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital. The funds in this category do not permit redemptions.

(g) This category includes funds and a fund of funds which invest in private real estate in the U.S. and outside the U.S. Property types are primarily office, industrial, residential and retail. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital. The funds in this category do not permit redemptions.

(h) This category is invested in venture capital funds and funds of venture capital funds. Underlying investments are primarily private investments in early stage companies. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital. The funds in this category do not permit redemptions.

(i) This category is invested in funds and a fund of funds which make investments primarily in private oil and gas partnerships, timber, mineral and mining companies, and infrastructure such as ports, toll roads, airports and utilities. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital. Funds in this category tend to have longer fund lives. The funds in this category do not permit redemptions.

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

(j) This category primarily includes investments in publicly traded equity securities and instruments including common stocks and common stock equivalents, American, European or Global Depository Receipts, convertible preferred stocks, warrants, and other rights or instruments convertible into common stock and classes of stock combining various features of common and preferred stocks and securities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Certain investments in this category include gate provisions that do not exceed more than one year after the initial redemption request period, with the fund manager having ultimate discretion which may allow for halting all redemptions for an extended period.

(k) This category is invested primarily in publicly traded fixed income securities and instruments including debt obligations of the U.S. government and agencies, non-U.S. sovereign debt, corporate bonds, mortgage and asset backed securities. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Certain investments in this category include gate provisions that do not exceed more than one year after the initial redemption request period, with the fund manager having ultimate discretion which may allow for halting all redemptions for an extended period.

(e), (f), (g), (h), (i) Non-marketable funds do not permit redemptions. Return of capital is at the fund manager's discretion, subject to provisions documented in limited partnership agreements. In general, capital and realized gains are distributed to investors when an investment is liquidated. Interim distributions of interest, operating income and dividends are made by some funds. Some funds are able to recall distributions. It is estimated that the majority of underlying assets of the funds will be liquidated over the next ten years.

(b), (c), (d) The majority of the hedge funds in these categories have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions if they receive redemptions in excess of the gate (a level stated in their governing documents).

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of June 30, 2010. However, the diversification of the Organization's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The following schedule summarizes the composition of investment return for the years ended June 30, 2010 and 2009 (in thousands):

		<b>2010</b>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest	\$	19,218	29,173	—	48,391
Net operating investment gains (losses)		<u>(375)</u>	<u>579</u>	<u>—</u>	<u>204</u>
Investment income available for operations		18,843	29,752	—	48,595
Net nonoperating investment gains		<u>68,179</u>	<u>49,436</u>	<u>6,445</u>	<u>124,060</u>
Total return on investments	\$	<u><u>87,022</u></u>	<u><u>79,188</u></u>	<u><u>6,445</u></u>	<u><u>172,655</u></u>
		<b>2009</b>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest	\$	31,284	33,250	30	64,564
Net operating investment gains (losses)		<u>11,399</u>	<u>(432)</u>	<u>(30)</u>	<u>10,937</u>
Investment income available for operations		42,683	32,818	—	75,501
Net nonoperating investment losses		<u>(166,228)</u>	<u>(161,790)</u>	<u>(27,171)</u>	<u>(355,189)</u>
Total return on investments	\$	<u><u>(123,545)</u></u>	<u><u>(128,972)</u></u>	<u><u>(27,171)</u></u>	<u><u>(279,688)</u></u>

The Organization participates in a securities lending program administered by its custodian. The custodian enters into securities lending agreements with borrowers on behalf of the participants. Either party can terminate the loan at any time. Collateral requirements for each loan are as follows: (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market is not located in the United States, 105 percent of the market value of the loaned securities. The collateral is held in short-term money market funds. At June 30, 2010, investment securities having a fair value of

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

approximately \$133.5 million were loaned and the total value of collateral received was approximately \$137.7 million.

#### (9) Split Interest Agreements

The Organization is a beneficiary of split interest agreements in the form of charitable gift annuities, perpetual trusts held by third parties, charitable remainder trusts and pooled income funds. The value of split interest agreements is measured as the Organization's share of fair value of the assets. Of the \$156 million in assets under these agreements, which are included in other assets on the consolidated statement of financial position, \$37 million are charitable gift annuities and the remainder are assets for which the Organization is not the trustee. Liabilities associated with these agreements are \$22 million, of which \$5 million is included with other current liabilities and \$17 million is included with other noncurrent liabilities on the consolidated statement of financial position.

#### (10) Benefit Plans

**Pension and Postretirement Plans:** Before July 1, 2009, employees of the American Red Cross, including participating local chapters, were covered by the Retirement System of the American National Red Cross (the Plan) after one year of employment and completion of 1,000 hours of service during any consecutive 12 month period. Effective July 1, 2009, the Plan was closed to employees hired after June 30, 2009.

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined pension benefit, funded entirely by the employer. Prior to July 1, 2005, voluntary contributions could be made by active members to fund an optional annuity benefit. Defined benefits are based on years of service and the employees' final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months of service before retirement.

The Organization's funding policy was to set the employer contribution rate at a percentage of covered payroll that is intended to fund toward a target range of not less than 115 percent and no more than 120 percent of the projected unit credit accrued liability. To the extent that the current funding is more or less than the target's upper bound, the difference is amortized over ten years in calculating the contribution rate. During fiscal years 2010 and 2009, the Organization contributed 5.6 percent and 4.25 percent of covered payroll to the Retirement System respectively.

The Organization has investment guidelines for Plan assets. The overall objective of the guidelines is to ensure the Plan assets provide capital growth over an extended period of time, while also considering market risks and ensuring that the portfolio income and liquidity are appropriate to meet the Plan benefit payments and other expenses. The Plan investments are required to be diversified by asset class and within each asset class, in order to ensure that no single investment will have a disproportionate impact on the total portfolio. The Plan asset allocation is reviewed each year with current market assumptions to ensure the asset mix will achieve the long-term goals of the Plan. See note 8 for descriptions of the methodologies used to value plan assets.



**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The Plan assets were invested in the following categories at June 30, 2010 and 2009:

	<b>Pension assets</b>	
	<b>2010</b>	<b>2009</b>
Cash and short-term investments	9%	8%
Domestic equity	16	16
International equity	14	16
Fixed income	30	33
Commodities	3	2
Marketable and nonmarketable alternative funds	28	25
	<u>100%</u>	<u>100%</u>

The Plan assets were within authorized asset allocation ranges at June 30, 2010 and 2009.

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2010 (in thousands):

	<b>Fair value measurements at June 30, 2010</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
U.S. government securities	\$ 39,672	21,130	—	60,802
Corporate bonds and notes	21,571	309,803	—	331,374
Common and preferred stocks	254,599	83,475	—	338,074
Marketable and nonmarketable alternative funds	—	16,544	535,152	551,696
Commodities	—	40,094	—	40,094
Money market and other	8,324	133,926	—	142,250
Equity interest in par annuity	—	—	38,339	38,339
Guaranteed accumulation fund	—	—	58,012	58,012
<b>Total</b>	<u>\$ 324,166</u>	<u>604,972</u>	<u>631,503</u>	<u>1,560,641</u>



**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The following table presents the Organization's defined benefit plan activity for plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010 (in thousands):

	<u>Alternative funds</u>	<u>Equity interest in participating annuity</u>	<u>Guaranteed accumulation fund</u>	<u>Total</u>
Balance at June 30, 2009	\$ 451,362	52,848	53,669	557,879
Total realized and unrealized gains	40,689	52,491	4,343	97,523
Purchases, issuance, and settlements (net)	43,101	(67,000)	—	(23,899)
Balance at June 30, 2010	\$ <u>535,152</u>	<u>38,339</u>	<u>58,012</u>	<u>631,503</u>
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2010	\$ <u>31,111</u>	<u>52,491</u>	<u>4,343</u>	<u>87,945</u>

The Organization also provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and the Organization each pay a portion of the premium costs. The medical and dental plans pay a stated percentage of expenses reduced by deductibles and other coverages. The Organization has the right to modify cost-sharing provisions at any time. In addition, life insurance benefits of \$5,000 are provided with no contributions required from the retirees.

The Organization's postretirement benefit plans are unfunded. However, the Board of Governors has designated \$96 million of unrestricted net assets to fund a portion of premiums for retirees' postretirement medical benefits.

Effective January 1, 2009, the Organization eliminated plan coverage (retiree medical and life benefits) for all future retirees that did not currently meet certain eligibility conditions. In addition, the plan was amended to transition Medicare eligible retirees to a private fee-for-service plan and to change the premium supplement tables and indexing effective July 1, 2009.

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the consolidated statements of financial position for the years ended June 30, 2010 and 2009 (in thousands):

	Pension benefits		Postretirement benefits	
	2010	2009	2010	2009
Changes in benefit obligations:				
Benefit obligations at beginning of year	\$ 2,020,908	1,811,220	80,539	224,466
Service cost	55,491	49,282	1,069	6,917
Interest cost	126,819	119,891	4,887	10,213
Plan amendment	—	—	—	(169,892)
Actuarial (gain) loss	110,293	104,600	(2,054)	14,807
Benefits paid	<u>(70,489)</u>	<u>(64,085)</u>	<u>(4,530)</u>	<u>(5,972)</u>
Benefit obligations at end of year	<u>2,243,022</u>	<u>2,020,908</u>	<u>79,911</u>	<u>80,539</u>
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,372,433	1,702,487	—	—
Actual return on plan assets	189,329	(314,895)	—	—
Employer contributions	69,368	48,926	—	—
Benefits paid	<u>(70,489)</u>	<u>(64,085)</u>	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year	<u>1,560,641</u>	<u>1,372,433</u>	<u>—</u>	<u>—</u>
Funded status/accrued benefit costs	\$ <u>(682,381)</u>	<u>(648,475)</u>	<u>(79,911)</u>	<u>(80,539)</u>

Pension-related changes other than net periodic benefit cost for 2010:

	Pension benefits	Postretirement benefits	Total
Prior service credit (cost)	\$ 1,190	(33,281)	(32,091)
Net actuarial (loss) gain	<u>(55,639)</u>	<u>2,054</u>	<u>(53,585)</u>
Pension-related changes other than net periodic benefit cost	\$ <u>(54,449)</u>	<u>(31,227)</u>	<u>(85,676)</u>

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Pension-related changes other than net periodic benefit cost for 2009:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service credit (cost)	\$ 1,907	(17,249)	(15,342)
Net actuarial loss	(548,890)	(13,990)	(562,880)
Plan amendment	—	169,892	169,892
Pension-related changes other than net periodic benefit cost	\$ <u>(546,983)</u>	<u>138,653</u>	<u>(408,330)</u>

Items not yet recognized as a component of net periodic benefit cost for 2010:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit (cost)	\$ 1,209	(121,530)	(120,321)
Unrecognized net actuarial loss	573,728	664	574,392
	\$ <u>574,937</u>	<u>(120,866)</u>	<u>454,071</u>

Items not yet recognized as a component of net periodic benefit cost for 2009:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit (cost)	\$ 2,399	(154,811)	(152,412)
Unrecognized net actuarial loss	518,089	2,718	520,807
	\$ <u>520,488</u>	<u>(152,093)</u>	<u>368,395</u>

Estimated amounts to be amortized into net periodic benefit cost over the next fiscal year are as follows:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service cost	\$ (856)	(33,281)	(34,137)
Net actuarial loss	35,442	—	35,442
	\$ <u>34,586</u>	<u>(33,281)</u>	<u>1,305</u>

The accumulated benefit obligation for the pension plan was approximately \$2.1 billion and \$1.9 billion as of June 30, 2010 and 2009, respectively.

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

The weighted average assumptions used to determine benefit obligations for 2010 and 2009 were as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	5.91%	6.40%	5.33%	6.25%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2010 and 2009 were as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Discount rate	6.40%	6.75%	6.25%	6.75%
Expected return on plan assets	7.50	7.50	—	—
Rate of compensation increase	5.00	5.00	—	—

The expected rate of return assumption on Plan assets was determined by considering current economic and market conditions and by reviewing asset class allocations, historical return analysis and forward looking capital market expectations. Asset class allocations were established by considering each class' risk premium commensurate for the level of risk, duration that matches the Plan's liabilities, and incremental diversification benefits. Historical returns and forward looking capital market expectations were gathered from, and compared among the Plan's investment managers, and a sampling of the consultant community.

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2010. The rate was assumed to decrease gradually to 5 percent for 2020 and remain at that level thereafter. A 13 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2009. The rate was assumed to decrease gradually to 5.5 percent for 2016 and remain thereafter.

The components of net periodic benefit cost for the years ended June 30, 2010 and 2009 were as follows (in thousands):

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Service cost	\$ 55,491	49,283	1,069	6,917
Interest cost	126,819	119,891	4,887	10,213
Expected return on plan assets	(134,675)	(129,394)	—	—
Amortization of prior service cost	1,190	1,907	(33,281)	(17,249)
Net curtailment gain	—	—	—	817
Net periodic benefit cost	<u>\$ 48,825</u>	<u>41,687</u>	<u>(27,325)</u>	<u>698</u>

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (in thousands):

	Point increase	Point decrease
Effect on total of service and interest cost components	\$ 6	(5)
Effect on postretirement benefit obligation	115	(99)

The Organization expects to contribute approximately \$124 million to its pension plan and \$4.6 million to its postretirement benefit plan during the year ended June 30, 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, as of June 30, (in thousands):

	Pension benefits	Postretirement benefits
2011	\$ 84,844	4,616
2012	95,564	4,876
2013	106,454	5,158
2014	117,203	5,442
2015	127,271	5,640
2016 – 2019	779,320	29,745
	\$ 1,310,656	55,477

**American National Red Cross Savings Plan – 401(k) Plan:** The Organization sponsors the American National Red Cross Savings Plan (the Savings Plan), a defined contribution plan. Employees are eligible to participate upon hire. Vesting is immediate if hired before June 30, 2005; 3 year cliff if hired on or after July 1, 2005. Prior to May 1, 2009, the American National Red Cross matched 100 percent of the first 4 percent of pay contributed each pay period by the participant. As of May 1, 2009 the American Red Cross temporarily suspended the employer match. The Organization contributed approximately \$26 million to the Savings Plan in 2009. There were no contributions to the Savings Plan in 2010. For the 2010 calendar year, contribution limits were based on a maximum annual compensation of \$245,000. As of June 30, 2010, there were 19 investment options that an employee could choose from, a self-managed brokerage account and one fund that no longer accepted new contributions or transfers-in.

### (11) Receivables Securitization Program

In August 2005, the Organization initiated a \$100 million program to sell (securitize), on a revolving basis, certain biomedical hospital accounts receivable, while retaining a subordinated interest in a portion of the receivables. In August 2007, under the 3rd amendment to the program, the securitized receivable amount was increased to \$150 million. The eligible receivables are sold, without legal recourse, to a third party

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

conduit through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables.

The program qualifies for sale treatment under ASC Topic 860. As of June 30, 2010, the outstanding balance of securitized accounts receivable held by the third party conduit was approximately \$157 million of which the Organization's subordinated retained interest was approximately \$7.3 million. Accordingly, \$150 million of accounts receivable balances, net of applicable allowances, were removed from the statement of financial position as of June 30, 2010. Expenses associated with the program totaled approximately \$2.6 million in the years ended June 30, 2010.

The Organization uses the current value of the receivables to measure the fair value of its retained interest. No present value calculation is done since the life of the receivables is usually less than 30 days.

### (12) Joint Costs

For the years ended June 30, 2010 and 2009, the Organization incurred joint costs of approximately \$9.9 million and \$7 million, respectively, for informational materials and activities that included fund raising appeals. Of those costs, \$2.5 million and \$2.2 million were allocated to fund raising, \$2.8 million and \$1.8 million to disaster services, \$2.7 million and \$1.8 million to health and safety services, and \$1.9 million and \$1.2 million to other services for the years ended June 30, 2010 and 2009, respectively.

### (13) Commitments and Contingencies

**Litigation:** The Organization is a defendant in a number of lawsuits incidental to its operations. Liabilities are legally the obligation of the American National Red Cross, rather than any of its individual operating segments. Accordingly, settlement costs for these matters, if any, will be viewed as an American National Red Cross-wide responsibility, but may be charged against the individual operating segments in the future. In the opinion of management, the outcome of such lawsuits will not have a materially adverse effect on the Organization's financial position.

**Consent Decree:** In April 2003, the American National Red Cross signed an amended consent decree (the Decree) with the United States Food and Drug Administration (FDA) affecting Biomedical Services and its blood services regional operations. The Decree requires compliance with specific standards on how the Organization will manage and monitor its Biomedical Services' operations and formalized management of compliance related issues and provides timelines for their resolution. The Decree subjects the Organization to potential monetary penalties if it fails to meet the compliance standards. The compliance penalty provisions cover two general areas: (1) penalties for violations of the Decree, including violation of the Food Drug and Cosmetic Act and FDA regulations; and (2) penalties for the release of unsuitable blood products. Potential penalty amounts are limited to one percent of gross annual revenues generated by Biomedical Services for products and services in the first year (April 15, 2003 through April 14, 2004) of the Decree. The limit is increased to two percent in the second year, three percent in the third year, and four percent starting in the fourth year and annually thereafter. It is the opinion of management that the financial statements adequately accrue for potential penalties resulting from noncompliance with the requirements of the Decree.

**THE AMERICAN NATIONAL RED CROSS**

Notes to Consolidated Financial Statements

June 30, 2010

(with summarized information for the year ended June 30, 2009)

**Government Grants:** Costs charged to the federal government under cost-reimbursement grants and contracts are subject to government audit. Therefore, all such costs are subject to adjustment. Management believes that adjustments, if any, would not have a significant effect on the financial statements.

**(14) Subsequent Events**

The Organization has evaluated subsequent events through the date the financial statements were issued, October 13, 2010.

# Basic Financial Management Institute - February 2011

Please take a moment to respond to the questions in the evaluation on the Basic Financial Management Institute below and give us your honest feedback.

**Please tell us about three things you learned in this Financial Management Institute.**

**Please tell us how you plan to implement some of the concepts and knowledge you gained in this Institute into your Program.**

**What, if any, aspects of the Basic Financial Management Institute would you like to see changed?**

- None
- Sequence of the courses
- More courses, which means a longer Institute (more hours or days)
- More time for each course, which means a longer Institute (more hours or days)

If you want more courses, please list the topics for those courses

**What did you think about the level of the courses overall?**

- Just right                       Too basic                       Too advanced

Other (please specify)



# Basic Financial Management Institute - February 2011

Please comment on and rate the following aspects of the instructors overall performance:

Bob Kollar

Presentations overall

Clarity

Addressed learning objectives

Allowed time for questions

Other (please specify)

Please comment on and rate the following:

Very useful

Useful

Not very useful

Quality of the hand-out materials

Practical applicability of the courses for future implementation

Other (please specify)

Please rate the overall organization of the Basic Financial Management Institute:

Excellent

Good

Fair

Sufficient advance information regarding the Institute

Overall organization and support leading up to the Institute

Logistics during the Institute

Other (please specify)

## Basic Financial Management Institute - February 2011

**Overall, how satisfied were you with the quality of this Institute?**

Very satisfied

Satisfied

Dissatisfied

Other (please explain)

**Would you recommend to colleagues that they participate in a future Financial Management Institute?**

Yes

No

Not sure

**Do you have any other comments or suggestions?**

Thank you so much for taking the time to respond!