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BASIC NONPROFIT FINANCIAL MANAGEMENT INSTITUTE

Specialist Certificate Program
February 3 and 4, 2011 Alexandria, VA

offered by the National Center for Nutrition Leadership

the CENTER The National Center for Nutrition Leadership

in collaboration with the Nonprofit Leadership Institute of Duquesne University

DUQUESNE UNIVERSITY
Nonprofit Leadership Institute

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The National Center for Nutrition Leadership

NON-PROFIT FINANCIAL MANAGEMENT INSTITUTE

Sponsored by Bank of America

BASIC CERTIFICATE PROGRAM

February 3, 2011

9:00 AM – 9:30 AM	**Shuttle to Center**
9:30 AM – 10:00 AM	***Arrival and Registration***
10:00 AM – 10:15 AM	***Introduction to Non-Profit Organizations***
10:15 AM – 12:15 PM	***Basic Accounting and Financial Reporting for Non-Profit Organizations – Part I*** Introduction to the basic financial statements utilized by non-profit organizations, including the: ▪ Statement of Financial Condition ▪ Statement of Activities ▪ Cash Flow Statement ▪ Footnotes to the Financial Statements
12:15 PM – 1:00 PM	**Lunch and Welcome by Enid Borden, President and CEO of the Meals On Wheels Association of America**
1:00 PM – 3:00 PM	***Basic Accounting and Financial Reporting for Non-Profit Organizations – Part II*** Typical transactions of non-profit organizations will be reviewed, with emphasis on their impact on the organization's financial statements.
3:00 PM – 3:15 PM	**Break**
3:15 PM – 4:45 PM	***Analyzing and Interpreting Financial Statements of Non-Profit Organizations*** This module is an introduction to basic financial analysis techniques, including simple ratio analysis. Basic ratios that can be used to gauge the financial strength of a NPO will be presented, with an

emphasis on the interpretation of the applicable ratio (e.g., current ratio, general & administrative expenses as a % of total expenses, etc.). Participants will work in groups and perform a basic analysis of two NPOs, comparing the financial similarities and differences between the two organizations.

6:00 PM – 8:00 PM	**Dinner and Welcome by Representatives of the Bank of America**
8:15 PM	**Shuttle to Hotel**

February 4, 2011

8:30 AM	**Shuttle to Center**
9:00 AM – 11:00 AM	***The Form 990 Information Return & Fund-raising Strategies for Small Non-Profit Organizations*** Participants will receive an overview of the Form 990 Information Return that is required to be filed with the Internal Revenue Service by non-profit organizations. Since the 990 is public information, it is used by many large donors. Knowing what donors look for can help non-profits be more effective in raising money.
11:00 AM – 11:15 AM	**Break**
11:15 AM – 12:45 PM	***Financial Fraud Risk and Prevention*** Every manager/director/board member needs to have a general understanding of fraud risk. In this module, the various types of fraud will be discussed: asset misappropriation; fraudulent financial reporting; and corruption (bribery, kickbacks). Statistics from the Association of Certified Fraud Examiners (ACFE) Report to the Nation will be presented and discussed. Specific examples of non-profit frauds will be shared. Participants will work in groups to assess and develop responses to several fraud risk scenarios.
12:45 PM – 1:00 PM	***General Questions, Program Summary and Wrap-Up*** An overall review of the day will be presented and final questions from participants will be addressed.
1:00 PM – 1:30 PM	**Evaluation and Lunch**

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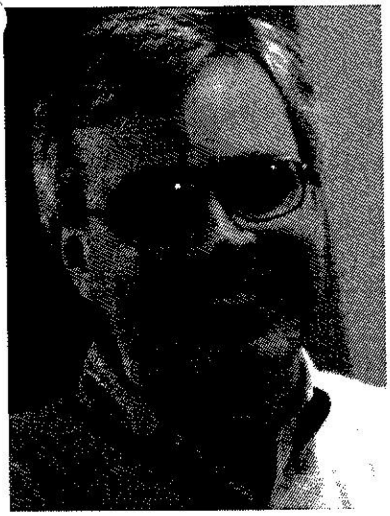
ROBERT J. KOLLAR, CPA



Experience

Bob Kollar is a **CPA with over 27 years of business and public accounting experience**. Bob and his wife Kellie, also a CPA, own Kuhleman Kollar & Associates CPA's, P.C., an accounting and business consulting firm that works primarily with small businesses, mid-sized companies and non-profit organizations in a variety of industries. Bob's background includes 14 years of experience with the international professional services firm of Ernst & Young LLP. As a senior manager with Ernst & Young, Bob provided accounting, auditing and business advisory services to public and privately held companies in the financial services, communication, manufacturing and health care sectors, as well as not-for-profit organizations. Bob also worked for five years at the regional accounting firm of Schneider Downs & Co., Inc. where, as an audit senior manager, he served primarily middle-market, privately held companies in the manufacturing and service sectors. Bob has been a CPA since 1985.

As co-managing shareholder of Kuhleman Kollar and Associates CPA's, P.C., Bob provides part-time and contract CFO services to small and mid-size companies. He also works directly with the accounting personnel of client companies to improve their accounting systems in order to provide management with better information to run their business, and assists companies in their annual closing process and preparation of their annual reports and required SEC filings. He has also assisted companies in the selection of controllers and other management personnel.

During his public accounting career, Bob has been recognized for his teaching and mentoring skills, and has been requested on numerous occasions to instruct continuing professional education (CPE) programs for his employers and for member firms of the International Group of Accounting Firms (IGAF). Bob has also developed customized executive level training courses for a variety of privately held and publicly traded companies, including Alcoa, Bayer Corporation and H.J. Heinz. Additionally, Bob has developed specific training programs for non-profit organizations for **Duquesne University's Non-Profit Leadership Institute**. In the fall of 2003, Bob accepted an appointment on the faculty of Duquesne University's Palumbo-Donahue School of Business as an Assistant Professor of Accounting. In March of 2004, Bob was appointed Director of the **Master of Accountancy Program in Duquesne's John F. Donahue Graduate School of Business.**

Awards, Professional and Community Activities

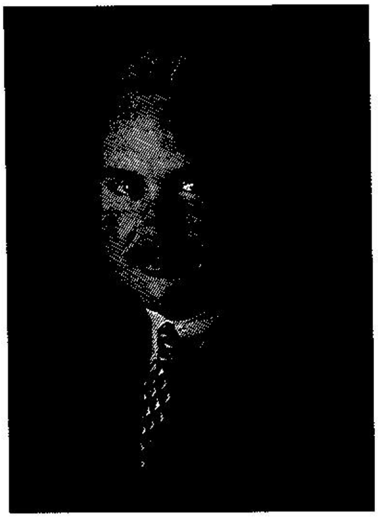
Bob has been actively involved in his profession and in the local community. His activities include:

- Graduate—Leadership Pittsburgh, Class XIV (1997-1998)
- 1997 Southwestern Pennsylvania Accountant Advocate of the Year—U.S. Small Business Administration
- President and Director, Duquesne University School of Business Administration Alumni Association, 1990 to present.
- Treasurer and Director, Center for Victims of Violence and Crime (CVVC), 2007 to present.
- Treasurer and Director, Pittsburgh Mediation Center, 2002 to 2006 (merged into CVVC).
- Director, Allegheny County Library Association, 2006 to 2008; Treasurer—2007 - 2008.
- Member, Accounting Advisory Board to the Duquesne University School of Business Administration; 1995 to present; Chairperson 2000 – 2002.
- Past President and Director, volunteer business advisor, PowerLink.
- Member, American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants; Associate Member of the Association of Certified Fraud Examiners.
- Teacher of the Year Award, 2004, Duquesne University and the Palumbo-Donahue School of Business.
- Co-recipient, Duquesne University Creative Teaching Award—2008.
- Director, Carnegie Library of Pittsburgh, 2009.

Education

Bob received his Bachelor's and Master's Degrees in Business Administration from Duquesne University.

JOHN A. MURPHY



John is a Director and Philanthropic Consultant with Bank of America Merrill Lynch's Retirement & Philanthropic Services Group. In this position, John provides product strategies and opportunity assessments to bankers and financial advisors pursuing institutional investment management opportunities in the non-profit market space.

John has extensive experience working with non-profit organizations, including foundations and endowments, health care systems, professional and industry associations, museums and charitable organizations. His experience has allowed him to work with the Annie E. Casey Foundation, Kaiser Family Foundation, Smithsonian Institutes, US Holocaust Memorial Museum, National Geographic, Africare, and other legacy clients throughout the Mid-Atlantic region.

John joined Bank of America Merrill Lynch in January 2010, coming from a national consulting firm offering investment management strategies to institutional clients. He has been in the Mid-Atlantic marketplace for more than 20 years, having been with Riggs Bank, NA as lead for the Institutional Trust Group for 12 years and then as a Financial Advisor in Merrill Lynch's Washington Office.

John has a BA in Economics from Villanova University and a Masters in Finance from Drexel University. He holds Series 7, 63 & 65 securities licenses.

TIA M. WADE

Tia is the Assistant Vice President and Institutional Business Development Strategist for Bank of America Merrill Lynch's Philanthropic Management Group in Washington, DC. In this position, Tia provides product strategies and opportunity assessments to bankers and financial advisors pursuing institutional investment management opportunities in the non-profit market space.
Philanthropic Management delivers expertise and a comprehensive suite of investment and charitable management services to help institutions build and sustain their missions.

Tia began her career with Bank of America in 1998 as a marketing intern with the National Direct Sales group in Richmond, Virginia. From there she worked within the Consumer Bank on various associate delight and marketing projects. In 2003 she entered a leadership development program and subsequently managed a team of consumer bankers and in 2005 accepted a position as a Client Manager in Premier Banking & Investments where she built and managed a portfolio of 200 affluent clients. In addition to working at Bank of America Merrill Lynch, she has also held marketing positions at Morgan Stanley and Merrill Lynch in McLean, Virginia.

Tia obtained her Bachelor of Science degree in Finance from the George Mason University School of Management. She holds NASD licenses Series 7 and 66. She is a Director at Large of the George Mason University Alumni Association and the Mentoring Committee Chairperson for the Black Professional Group within Bank of America.

MEALS ON WHEELS ASSOCIATION OF AMERICA

NON-PROFIT FINANCIAL MANAGEMENT INSTITUTE

Basic Certificate Program

Presented by: Robert J. Kollar, CPA
Director, Master of Accountancy Program
Duquesne University
February 3 – 4, 2011

Learning Objectives

At the end of this program, participants should be able to:

1. Read and understand the basic information conveyed by the financial statements of a non-profit organization.
2. Understand the impact of typical business transactions of a non-profit organization's financial statements.

Learning Objectives

3. Perform basic financial analysis of a non-profit organization.
4. Draw conclusions about the financial strength and operating performance of a non-profit organization.
5. Understand the general requirements of the Form 990 tax return.
6. Discuss the risk of financial fraud in a non-profit organization and how it can be prevented.

Thanks to our Sponsor!

Meals on Wheels Association of America extends its sincere thanks to:

Bank of America

for making this program possible through its generous financial support.

Program Schedule

Day One - Thursday, February 3, 2011

- Introduction to non-profit organizations
- Financial statements of non-profits and their business transactions
- Financial analysis of non-profits

Program Schedule

Day Two - February 4, 2011

- The Form 990 tax return
- Fund-raising strategies for small non-profit organizations
- Fraud risk and prevention
- General questions, program summary and wrap-up

Introduction to Non-Profit Organizations

- What is unique about non-profit organizations?
- How are non-profits financially different from for-profit entities?

Financial Statement Differences Between Non-Profit and For-Profit Entities

Non-Profit	For-Profit
• Statement of Financial Position/Condition • Statement of Activities • Statement of Cash Flows • Notes to Financial Statements	• Balance Sheet • Income Statement • Statement of Cash Flows • Notes to Financial Statements

Financial Statement Differences

- Statement of Financial Position — includes the organization's assets, liabilities and its "net assets"
- Statement of Activities — reports the organization's revenues and expenses
- Statement of Cash Flows — reports cash inflows and outflows

Financial Statement Differences

- Non-profits have "net assets" on their statement of financial position. Three types or categories of net assets:
  - Unrestricted
  - Temporarily Restricted
  - Permanently Restricted

The Statement of Financial Position—A Closer Look

- The statement is as of a "point in time"—covers a specific date (usually at month-end or year-end)
- Includes assets, liabilities and "net assets"
- A summary of what the organization owns, owes, and what's "left over"

The Statement of Financial Position—A Closer Look

Let's start with general definitions:

- Assets—
- Liabilities—
- Net Assets—

The statement is based on the accounting equation:

Assets = Liabilities + Net Assets

The Statement of Financial Position—A Closer Look

Classification on the statement:

Current vs. *non-current*

Current Assets (examples)

Cash	Prepaid expenses
Accounts receivable	Other assets
Short-term investments	

The Statement of Financial Position—A Closer Look

Long-term assets (examples)

Investments	Vehicles
Land	Furniture & Fixtures
Buildings	Vehicles
Equipment	

The Statement of Financial Position—A Closer Look

Current Liabilities (examples)

Accounts payable

Accrued liabilities

Current portion of long-term obligations (e.g., mortgage)

The Statement of Financial Position—A Closer Look

<u>Long-term liabilities (examples)</u>

Bonds payable

Mortgage loan payable

Pension liability

The Statement of Financial Position: Net Asset Categories

- Unrestricted –
- Temporarily Restricted –
- Permanently Restricted –

Statement of Activities—A Closer Look

- Captures the "operations" of the organization
- Covers a "period" of time (typically a month/quarter/year)
- Reports information in the categories of the net assets (unrestricted, temporarily restricted, and permanently restricted)

Statement of Activities—Accounting for Contributions

- <u>Contributions</u>:
  a) Conditional promise to give
  b) Unconditional promise to give
  c) Donated goods and services
- <u>Unconditional promises to give</u>:
  a) Unrestricted
  b) Restricted—temporarily or permanent

Statement of Activities—A Closer Look

Operations of the organization:

- Public Support—contributions, grants, etc. (impact of restrictions)
- Revenues—contracted services, rental revenue, program fees, etc.
- “In-kind” donations
- “Releases from Restrictions”

Statement of Activities—A Closer Look

Expenses—typically shown two ways:

- Summarized into categories: program expenses, general & administrative, and fund-raising
- Additionally, most organizations provide more detail on expenses in a "Statement of Functional Expenses" which shows the detail of expenses (wages, benefits, etc.)

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Let's review a series of transactions of a typical non-profit organization and their specific effect on the organization's financial statements.

Remember the Accounting Equation:

Assets = Liabilities + Net Assets

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

The following is a series of transactions experienced by the Anytown Meals Program (AMP), a non-profit organization, for a six month period.

Transaction #1

AMP receives $150,000 in unrestricted donations, and another $400,000 in pledges (no restrictions) that are to be paid by year-end. Experience shows 80% collection rate on pledges.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #1—Effect

Assets—Cash increases by $150,000 and pledges receivable increase by $400,000 net of allowance for uncollectible pledges of $80,000.

Net Assets—unrestricted—increases from unrestricted contributions revenue of $470,000.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #2

AMP receives $310,000 in cash related to the pledges receivable.

Effect #2

Assets—Cash increases by $310,000

Pledges receivable decreases by $310,000

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #3

AMP determines that they need an additional storage facility. Estimated cost is $300,000. Dr. Glad Todonate agrees to contribute $150,000 if AMP can provide the remaining amount from fund-raising efforts.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #3

What is the effect on AMP's financial statements at this time? Why?

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #4

Dewey, Cheatem & Howe, Attorneys, provided services to AMP at no charge. The fair market value of the services provided was $15,000.

Effect #4

Net Assets—unrestricted—recognize an increase in donated services revenue of $15,000 and an offsetting increase in legal expense of $15,000. Why is this recorded in this manner?

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #5

AMP's Fund-raising and Development Committee raises $165,000 specifically for the storage facility. Dr. Glad Todonate provides his donation of $150,000.

Effect #5

Assets—Cash increases by $315,000

Net Assets—temporarily restricted—contributions revenue increases by $315,000.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

<u>Transaction #6</u>

Construction of the storage facility completed. Final cost was $320,000. Paid for with amounts raised and remainder with unrestricted funds.

<u>Effect #6</u>

<u>Assets</u>—Buildings increase and cash decreases by $320,000.

<u>Net Assets</u>—a release from restriction (RFR) occurs, increasing unrestricted and decreasing temporarily restricted.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #7

Received county contract (Area Agency on Aging) to provide meals to qualified county residents in the next six months. Received advance payment of $20,000. County agency will be final billed based on actual meal counts and agreed upon amount per meal served ($2.05/meal) plus delivery expense.

Effect #7

Assets—Cash increases by $20,000.

Liabilities—Unearned revenue increases by $20,000 (will be recognized as contract revenue when earned).

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #8

AMP pays for the following expenses and purchases during the period:

Salaries and wages	$78,300
Payroll taxes & benefits	51,485
Utilities	24,100
Food purchases	225,000
Supplies	33,575

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #8

Assets—cash decreases by $412,460. Food inventory increases by $225,000. Total assets decrease by $187,460 (net effect).

Unrestricted net assets—decreases by $187,460 (total of the various expenses).

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #9

Billed the county Agency on Aging for meals served during the period. 10,105 meals served @ $2.05/meal (per contract), less advance received of $20,000, plus $1,875 in delivery expenses.

(10,105 x $2.05) - $20,000 + $1,875 = $22,590.25

Effect #9

Assets—Accounts receivable increases by $22,590.25

Net assets—unrestricted—increases by $22,590.25 (County Contract Revenue)

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #10

Received food donations, 232,750 pounds, valued at $1.50/lb., from various sources (grocery stores, bakeries, etc.).

Effect #10

Assets—Food inventory increases by $349,125.

Net Assets—unrestricted—donated goods revenue increases by $349,125.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #11

Local residents donate 675 hours of volunteer time to the operation. AMP would have paid $7.25/hour (minimum wage) if it had to hire individuals to perform these tasks.

Effect #11

Nothing is recorded in the accounting records. Why not?

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #12

A local foundation makes a pledge of $150,000 to AMP, payable in three years. The present value of the pledge today is $125,943 (assuming a 6% interest rate).

Effect #12

Assets—pledges receivable increase by $125,943.

Net assets—temporarily restricted—contribution revenue increases by $125,943 (time restriction)

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #13

Dr. Glad Todonate and several of his friends donate $350,000 to the organization to establish an endowment fund. The principal cannot be utilized; however, investment earnings can be used for AMP's general operations.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Effect #13

Assets—cash/investments increases by $350,000.

Net Assets—permanently restricted—contribution revenue is reported in the amount of $350,000. Future investment income on the fund will be unrestricted.

Example Transactions Affecting Non-Profit Organizations and their Financial Statement Effects

Transaction #14

A physical count of the food inventory on hand at the end of the period valued it at $42,285. (Purchases + donations less ending amount)

Effect #14

Assets—decrease inventory by $531,840.

Net Assets—unrestricted—decrease by recognizing $531,840 in food expense.

In-Class Exercise—Transactions and Their Effect on Non-Profit Financial Statements

- Participants will be provided a list of transactions for a hypothetical non-profit organization (see separate handout)
- Participants will "process" the transactions on pre-printed forms and prepare resulting financial statements for the organization (see separate handouts)

Analyzing and Interpreting Non-Profit Financial Statements

- Introduce ratio analysis
- Introduce vertical and horizontal analysis
- Perspectives of:
  a) Individual donors
  b) Foundations

Analyzing and Interpreting Non-Profit Financial Statements

- Ratio analysis
  a) Liquidity and solvency
  b) Profitability and efficiency
- Vertical analysis—analyze line items as a % of a common base (e.g., total support and revenues)
- Horizontal analysis—analyze year to year/period to period changes in line items

Understand Your Organization's Funding Sources - and the Related Risks!

- Why is this important?
- Who are your organization's major funders?
- What are the "risks" to your organization as a result of your funders?

Analyzing and Interpreting Non-Profit Financial Statements—In-Class Exercise

- Participants will "analyze" a sample financial statement for a non-profit organization by performing some ratio analysis, etc. and make observations on its financial strength and operating effectiveness.

Introduction to the Non-Profit Tax Return—Form 990

Background and purpose

- Form 990 was updated in 2008 (effective in 2009 and 2010); first major update since 1979!
- The "990" serves several key purposes, including:
  - a) Regulation of the tax-exempt sector
  - b) Providing better and more transparent public information

Introduction to the Non-Profit Tax Return—Form 990

Filing requirements

- Based on gross receipts and total assets test
- Three possible forms of the 990, depending on outcome of gross receipts and total assets test
  a) Form 990-N, Electronic Notice (e-Postcard)
  b) Form 990-EZ, Short Form Return of an Organization Exempt from Income Tax
  c) Form 990, Return of an Organization Exempt from Income Tax

Introduction to the Non-Profit Tax Return—Form 990—Filing Requirements

Gross Receipts *and*	Gross Assets	Form
$50,000 or less*	n/a	990-N
$50,000 to $200,000	< $500,000	990-EZ
> $200,000	> $500,000	990

*Years ending on or after 12/31/10

Due date of return: 15th day of fifth month after end of the fiscal year.

Introduction to the Non-Profit Tax Return—Form 990

Structure of the Form 990

- Twelve page core form and 16 schedules
- Part I of the core form is the *Summary*, and requires a snapshot of information to be included elsewhere in the form
- Part IV of the core form is a *Checklist of Required Schedules,* used to determine which schedules (of the 16) the organization must file
- The 16 schedules focus on areas of particular interest to either IRS or the general public

Introduction to the Non-Profit Tax Return—Form 990

Generally, filers will have to complete:

- Schedule A—Public Charity Status (very important for many non-profit organizations!)
- Schedule B—Contributors
- Schedule D—Supplemental Financial Statements
- Other schedules—dependent on the organization's activities

Introduction to the Non-Profit Tax Return—Form 990

Areas of focus in the Form 990

A. Governance (Part VI)—requires information about the governing body, management, policies and disclosure practices
   1. Interestingly, not required by tax law! This is an attempt by the IRS to present areas of focus or to encourage "behavior modification"
   2. Examples: Questions regarding conflict of interest, whistleblower policies, records retention, review of the 990 before filing, etc.

Introduction to the Non-Profit Tax Return—Form 990

Areas of focus:

B. Compensation of officers, directors, key employees (Part VII)

1. Must disclose compensation for current officers and directors, as well as for the 5 highest compensated employees
2. Must also include average number of hours worked by individuals

Introduction to the Non-Profit Tax Return—Form 990

Areas of focus:

C. Financial Information (Parts VIII, IX, X and XI) includes information from the financial statements. Also includes questions regarding audits, etc.

D. Public Charity Status and Public Support Test (Schedule A)—organization must receive at least 33 1/3% of its support from contributions, etc. related to is exempt functions

Introduction to the Non-Profit Tax Return—Form 990

Areas of focus:

E. Schedule B—Contributors (donating > $5,000) must be separately reported

F. Schedule C—Political Campaigns and Lobbying Activities. Monitors amounts related to these efforts (there are specific limits on amounts used for lobbying)

Introduction to the Non-Profit Tax Return—Form 990

Other areas:

G. Schedule O—used specifically to provide supplemental information to questions in Part IV of the core form (Checklist of Required Schedules)

H. Schedule M—Non-Cash Contributions—used to report non-cash contributions (excluding donated services). Required to report quantity and reported financial statement amount of non-cash contributions received

Introduction to the Non-Profit Tax Return—Form 990

Review with participants an example of a completed copy of Form 990 for a non-profit organization.

Nonprofit Governance and Oversight
Who's minding the organization?

Financial Statements and the Form 990
Presented to: Meals On Wheels Association of America
Presented by: John Murphy and Tia Wade
Date: February 4, 2011

Merrill Lynch
Wealth Management
Bank of America Corporation

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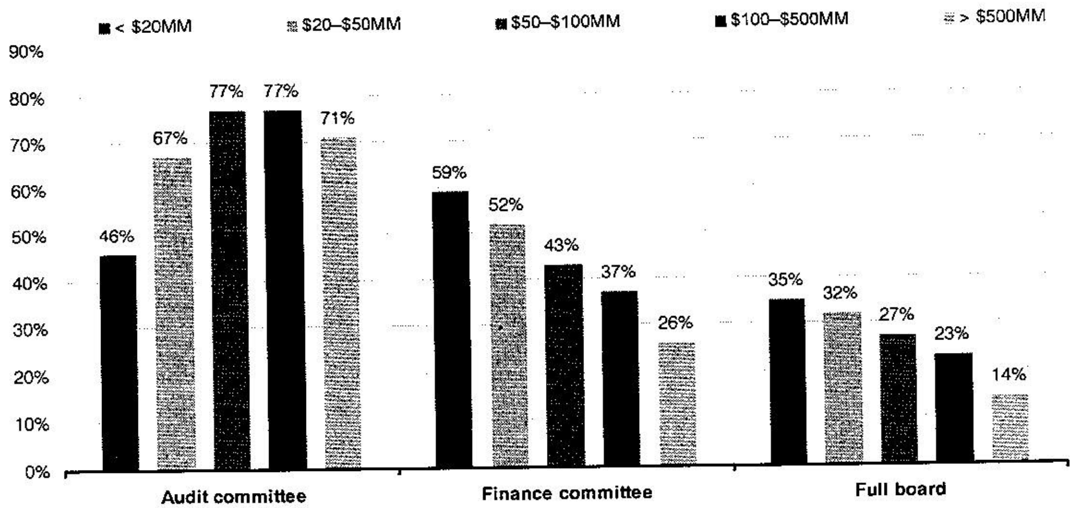
Reporting

Financial statements

- **Some organizations use no outside accountants or auditors**
- **For others, outside auditors prepare compiled or reviewed financial statements**
- **Still others obtain audited financial statements**
  - State law may impose audit requirements for certain nonprofit organizations
  - Organizations that receive federal funds
    - Single Audit Act
    - OMB Circular A-133
- **Consider having an independent audit**
  - Excellent way to account to the public
  - Good defense if selected for an IRS audit
- **Certify statements**
  - CEO and CFO should sign off formally or informally
  - Board should review and approve financial statements and Form 990

Who reviews your Form 990?



2008 National Board Governance Survey for Not-for-Profit Organizations, Grant Thornton

Duties of an audit committee

- Oversee the establishment and implementation of appropriate accounting policies and internal controls
- Assess the business risks of the organization and determine whether the organization is planning adequately for those risks
- Monitor the roles of the board, management and internal and external auditors to ensure the organization is following good financial governance practices
- Select and monitor internal and external auditors

Audit committee members

- **Professionals who understand the fundamental principles of**
  - Auditing
  - Financial reporting
  - Internal controls

Audit committee composition (% of organizations having member)

	Size of organization's budget				
Profession	<$20M	$20 to $50M	$50 to $100M	$100 to $500M	>$500M
CPA	67%	58%	67%	69%	72%
Banker	40%	33%	51%	35%	57%
Attorney	37%	43%	54%	40%	61%
Other business executive	80%	80%	82%	87%	89%

2008 National Board Governance Survey for Not-for-Profit Organizations, Grant Thornton

Audit results

- **Engagement letter**
  - Services to be provided
  - Standards that will be used
  - Staff's responsibilities in providing supporting information
  - Fees
  - Timetable
- **Confirmation letters to outside parties**
- **Management representation letter**
  - Acknowledges that the financial statements are the responsibility of the organization's management
  - Affirms the organization has provided all relevant information
  - May include a list of specific information provided

Audit results

- **Audit report**
  - Identifies the audited statements
  - States that the financial statements are the responsibility of nonprofit management
  - Identifies standards and basis used
  - States the auditors opinion on how well statements present the organization's financial position, operations and cash flows
- **Recommendations**
  - Spot inefficiencies in operations
  - Suggest new technologies

Form 990

- **New version requires much more disclosure**
  - Phased in over a three-year transition period
  - Filing requirement depends on financial activity
- **Answering "no" to too many of the questions could be viewed as an indication the organization has inadequate governance practices**
- **Could impact contributions, government contracts and other aspects of the organization's operations**

Form 990: policies and procedures

Policy, procedure or practice	Description required	Core form or schedule
Meetings of governing body and committees documented	No	Core
Form 990 review process	Yes	Core
Conflict of interest policy and annual update	No	Core
Conflict of interest monitoring procedures	Yes	Core
Whistleblower policy	No	Core
Document retention and destruction policy	No	Core
Compensation policy and practices	Yes	Core
Joint venture participation policy	No	Core
Public disclosure of documents policy	Yes	Core
Financial statements compiled, reviewed or audited by an independent accountant	No	Core

IRS Form 990, "Return of Organization Exempt from Income Tax"

Form 990: policies and procedures

Policy, procedure or practice	Description required	Core form or schedule
A committee assumes responsibility for audit, review or compilation and selection of independent accountant	No	Core
Donor-advised fund practices	No	Schedule D
Conservation easement practices	Yes	Schedule D
Written or oral agreements with any individual (including officers, directors, trustees or key employees) or entity in connection with professional fundraising activities	Yes	Schedule G
Compensation of CEO/executive director (methods used to set)	No	Schedule J
Written policy for certain fringe benefits	For "no" answers only	Schedule J
Gift acceptance policy	No	Schedule M

IRS Form 990, "Return of Organization Exempt from Income Tax"

Transparency and accountability

Internal Revenue Code requirements

- Form 1023
- Form 990
- Form 990-T
- Must be made available for public inspection

Go a step further

- **Post reports on your website**
  - Form 1023 exemption application
  - Form 990
  - Form 990-T
  - Annual reports
  - Financial statements
- **And make them available on request**

How you can benefit

- Support
- Greater disclosure and transparency result in more accountability
- Disclosure and transparency provide an opportunity to market to potential donors
- Potential donors can conduct due diligence and research before contributing
- Self-regulation and proactive behavior will help protect and build donor trust

Organizational Assessment

Governance Checklist

Bank of America Merrill Lynch

PHILANTHROPIC MANAGEMENT

Every nonprofit organization should have a strategic plan to minimize fiduciary risk, and that includes strong and effective governance documents. This easy-to-use risk assessment tool will help your organization identify any exposure you may have in your documentation and help you to prioritize areas of focus.

Once your organization has completed the documentation assessment using this tool, you will have both a critical evaluation of your document preparedness and a road map toward reducing your risk exposure.

For each item, please make a check mark (✓) in the most applicable response column.

Investment policy statement	Document is current and available	Document is out of date	No document available	Not required for our organization
Define general objectives				
Delegate asset management responsibilities to committee or professional managers				
Set asset allocation parameters				
Describe asset quality				
Define the investment manager's accountability				
Provide for regular review of the policy				
Monitoring guidelines				
Specific duties of service providers				

Spending policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Follow approved spending calculation				
Variations to rate are approved by board				

continued

Gift acceptance policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Define the types of assets the organization will accept				
List gift forms that are acceptable				
Define the organization's role in administering gifts				
Specify limits you may want to impose				
Detail the types of restrictions donors can place on gifts				
Outline donor responsibility with respect to appraisals for tax purposes				

Conflict of interest policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Written procedures for determining whether a relationship, financial interest or business affiliation is a conflict of interest				
Course of action to take if a conflict is identified				
Requirement that those covered periodically disclose in writing any known financial interest the individual, or a member of the individual's family, has in any company that does business with the organization				

Executive compensation policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Decision-makers are free of conflicts of interest				
Reasonable compensation is determined using appropriate comparable data				
Board has adequately documented the basis for its determination				

Fundraising policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Ensure solicitations meet federal and state law requirements				
Solicitation materials are accurate, truthful and candid				
Fundraising vendor costs are not excessive				
Gift acknowledgements are Form 8283-compliant				

continued

Document retention and destruction policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Clearly identified permanent and 7-year retention requirements				
Access and storage processes documented				
Secure disposal processes				
Able to execute on voicemail and electronic mail guidelines				

Code of ethics	Document is current and available	Document is out of date	No document available	Not required for our organization
Governing body responsible for setting ethical standards				
Code built on the values that the organization embraces				
Outline the practices and behaviors that staff, board members and volunteers agree to follow				
Orientation sessions for new board and staff members and volunteers should include a discussion of the code				

Whistleblower protection policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Procedure for staff, volunteers and clients to report suspected wrongdoing without fear of retribution				
Specifies to whom to report information				
Stipulates that there will be no retaliation against reporting individual				
Exception for false reports made with intent to harm the organization or an individual within the organization				

Thank you for your responses.

Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

Bank of America Merrill Lynch makes available investment products sponsored, managed, distributed or provided by companies that are affiliates of Bank of America Corporation or in which Bank of America Corporation has a substantial economic interest, including BofA™ Global Capital Management, BlackRock, and Nuveen Investments.

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Ready for the world to see your charity in hi-def?

The IRS Form 990

Bank of America Merrill Lynch

Philanthropic Management

Second Quarter 2010

Although all public charities filed the newly redesigned IRS Form 990 last year, many organizations may have underestimated its significance. The IRS's primary goal in redesigning the form was to encourage greater transparency. The primary effect for public charities, however, is better governance.

"The new Form 990 is a public charity's annual report, "says Chester Sterczek, Vice President, Client Support at Bank of America Merrill Lynch. It captures an in-depth picture of how a public charity is run and puts it up for public inspection, so that anyone seeking to research the organization — online or offline — can do so.

Completing Form 990 can be as all-consuming for public charities as annual reports are for publicly traded companies. But this exercise could be one of the biggest boons to a public charity's operations, fundraising efforts, and overall reputation.

An annual consultation on good governance

IRS Form 990 is longer, more detailed, and more work than ever. What began 60 years ago as a two-page form is now a multi-page document: 12 pages for the form itself and additional pages for charity-specific schedules.[1]

But completing the form doesn't have to be painful or inconvenient. In fact, it can be one of the most beneficial activities an organization undertakes all year.

Keeping public charities on a path to success

At its most basic level, Form 990 can keep organizations on track. "It helps charities ensure their programs are consistent with their missions and that they have their policies and procedures in place," says Sterczek.

Executive Summary:

The redesigned IRS Form 990 is more than just a public charity's annual report. Bank of America Merrill Lynch believes it's an essential tool for helping organizations apply the latest principles of good governance, by:

- Confirming and focusing on the mission
- Compensating key personnel fairly and consistently
- Avoiding conflicts of interest
- Increasing transparency

To help public charities get the most out of the Form's changes, we detail four areas of best practices — **assessing, preparing, educating**, and **allying** with a third-party provider.

[1] Smaller charities file the much shorter Form 990-EZ if they meet certain levels of assets and gross receipts.

Donald Greene, National Philanthropic Product Executive at Bank of America Merrill Lynch adds, "There's a much bigger onus on the board to understand its organization's policies and how it's being run." While most directors understand their fiduciary obligations, they may not fully appreciate that there's a new level of board accountability. "The form asks for a description of the process the board follows in reviewing the Form 990 before submission. It used to be sufficient just to confirm that a copy was provided to the governing body. Simply providing a copy is no longer enough."

The IRS will follow through with public charities whose Form 990s indicate they don't meet today's higher standards of good governance. "At 12% of the U.S. gross national product, the nonprofit sector represents a sizable amount of 'lost' tax revenue," says Sterczek. Today's IRS is more fully staffed, he says, and more likely to audit what it regards as questionable practices.

But the IRS may be the least of a public charity's worries. The new Form 990 reveals any organizational weakness. And with public documents easily accessible online, inadequately governed charities will quickly be sniffed out, says David Ratcliffe, Managing Director at Bank of America Merrill Lynch Philanthropic Management. "Consequences run the gamut from hurting fundraising all the way to reputational damage."

The form's Schedule O asks charities to explain how they make their documents and policies available to the public. "It speaks to the importance of transparency," says Ratcliffe, "and provides a not-to-be-missed opportunity to share good governance practices that aren't demonstrated in other parts of the form."

Helping public charities improve as organizations

When approached as a template for good governance, however, Form 990 goes beyond keeping charities on track. It can help them become even better organizations. "Form 990 forces best practices," says Ratcliffe, "and, just as important, an understanding of those practices."

Form 990 so clearly encourages and elevates transparency, accountability, and good governance, believes Ratcliffe, that it compels boards to look at each element of the form, understand it, and implement it.

For example, staying focused on the mission. "Charities can't assume everything they do fits their mission," says Greene. Form 990 encourages them to realign programs to their mission or to change what may be an outdated mission. For instance, a charity originally founded to help migrant workers but that now provides full community outreach should reflect that expanded service in its mission.

The effect on good governance has great implications for charities. Greene mentions another example, fundraising. "Donors often decide to contribute based on how an organization is run. If you were deciding between two charities with identical missions, and one is loosely run while the other posts its Form 990 online and looks really buttoned up, who would you give your money to?" For well-run organizations, Form 990 has become a highly effective fundraising tool.

Boards must be fully engaged in the process, says Greene. "Once delegated as a task for staff, the new form has been elevated to the board of director level."

A more collaborative IRS

The IRS is keen on helping nonprofits navigate the 990 and abide by its good governance principles, says Donald Greene. "When we ask them for guidance, they're very helpful." He mentions converting a large supporting organization to a private foundation. "The IRS worked extensively with us to help us learn Congress's intention with the Pension Protection Act."

"Form 990 seems to be intended by the IRS as an educational tool," he says. "It has a dedicated staff for exempt organizations that wants public charities to ask questions. Disclose what you're doing on the form, and if it raises red flags internally, work with the IRS to address them." If you don't, today's better-staffed IRS is more likely to come to you.

What's changed

The changes to Form 990 and its schedules are detailed on the IRS's website (www.irs.gov > Charities & Non-Profits > 2009 Form 990 – Significant Changes).

From the wider perspective of corporate governance, we view the following as the most significant changes to the form.

Confirming the mission statement

Nonprofits now have the opportunity to tell their story up front. Section III, the Statement of Program Service Accomplishments, prominently states the mission for anyone reviewing the form—the IRS, current and potential donors, volunteers, and the wider community. "It's your place to say all the great things about your organization," says Sterczek.

The IRS is most interested in:

- Three largest areas of accomplishment
- Succinct descriptions that clarify why the organization is tax-exempt

Its questions are similar to those asked when organizations first apply for tax-exempt status. "It's really an extension of the determination process," says Sterczek, so the IRS can ascertain that tax-exempt organizations still qualify as such. If the mission has changed, it must be reported in this section.

Explaining executive compensation

Public charities also must make a more rigorous case for the salaries they pay. The questions in Section VII take the compensation of the nonprofit's highest-ranking and highest-paid employees, its directors, and its trustees from the aggregate compensation expense reporting and showcase it at a new level of detail.

The IRS is most interested in:

- Getting five types of income—base, bonus, other taxable, and deferred compensation and nontaxable benefits—from...
- ...Current institutional trustees, officers, key employees, other five highest compensated employees, and from people holding these positions during the previous five years

Charities must also explain how they determine these compensation levels. Past 990s asked for salaries of the highest-paid executives, says Greene. "The new form goes beyond this and asks how salaries are determined."

The IRS wants evidence that charities have criteria for reviewing and vetting compensation (ideally by an independent party) and that pay conforms to market standards. "No one is saying your key people shouldn't be paid well for what they do," Greene adds. "But it's a red flag if you're paying much more than similar organizations are paying."

The IRS also wants to see that organizations have arrived at compensation levels that are consistent with the mission, says Ratcliffe, which can only be good for the organization.

Steering clear of conflicts of interest

Part VI, Governance, Management, and Disclosure, confirms that 1) the organization has a conflict of interest policy, 2) its key people are required to disclose on a yearly basis all interests that could result in a conflict, 3) there is regular and consistent monitoring and enforcement, and 4) procedures exist for enforcement.

The IRS is most interested in:

- Family and business relationships of officers, directors and trustees, and key employees

Schedule L of Form 990 goes further, asking for details on loans, grants, business transactions, and other transactions with interested persons (including disqualified persons).

This helps organizations as much as it helps the IRS. When one organization asked Bank of America Merrill Lynch to bid on its investment business, Ratcliffe discovered from its Form 990 that a board member—an investment manager—was being paid in the mid six figures to manage money for the charity. "It let us give them some much-needed advice on a conflict they may not have understood as potentially damaging to donor perceptions."

Protecting the messenger

Of the many indications of an organization's transparency, none may be more telling than a whistleblower policy, which federal law now requires.

The IRS is most interested in:

- Confirming that the organization has a whistleblower policy in place

This policy is an indication of good governance coming straight out of Sarbanes-Oxley, according to Greene. "Anyone in the organization should be able to say without risk that the executive director is doing something fishy, or that accounting practices seem strange."

Best practices for filing Form 990

The IRS makes a wealth of information available on its website, www.irs.gov. Newer public charities can refer to the booklet that came with their determination letter, says Sterczek, which explains how to prepare the form.

But every public charity can benefit from implementing what we consider to be the following best practices as they prepare Form 990.

1. Assess

Organizations should determine exactly how prepared they are to file Form 990. A formal assessment can quickly detect whether the required policies and documents are adequate and in place.

For example, Bank of America Merrill Lynch uses a brief worksheet which clients complete, gets fed into a computer application, and results in a client report that includes an overall score as well as individual scores on each component of the form. "Clients can review it with us and with their outside tax or legal counsel," says Greene. "From there, it's easy to develop a checklist of what's in place and where there may be gaps."

2. Prepare

"The biggest task by far in filing Form 990, at least for the first time, is finding the documents," says Greene. One organization Ratcliffe recently began working with couldn't find its rules and bylaws. "Form 990 focuses charities on these basic issues."

Preparers often have trouble getting information from the organization, says Sterczek. "Form 990 takes more time and more scheduling, and only the charity itself can answer its questions." To smooth the process, he recommends that organizations:

- Identify the people tasked with providing specific information
- Explain to them what's needed to complete the form
- Clearly communicate deadlines and milestones

Once this information flow is established, says Sterczek, it should be relatively simple to maintain. The initial work is worthwhile. "Good recordkeeping is more than just good administration. Records are essential to evaluating programs and determining if you're reaching your objectives."

3. Educate

Although Form 990 has deep implications for any public charity, says Ratcliffe, "directors, volunteers, even executives, don't always have the experience or training to fully understand the governance issues public charities now face. There's a lot to know, and the significance cuts across the organization."

He recommends holding a rotating schedule of internal meetings on specific aspects of the form — "conflicts of interest, staying on mission, and so on."

The board in particular needs to know all the issues and potential liabilities and what it must do to implement policies and procedures. "Charities that are taking Form 990 seriously are making an effort to educate their boards," says Ratcliffe.

Consider a board retreat that deals with every aspect raised by the form — not just its changes but their strategic significance. If a retreat isn't reasonable, consider an in-person education forum or, if board members are geographically dispersed, a webinar or phone conference.

Be sure to follow up with specific groups within the organization to help ensure that the understanding you've imparted is translated into action. "Help your professional staff in complying," says Ratcliffe. "Make sure they understand the implications and are putting their understanding into practice."

Finally, continue this education over time. "Having a policy in place isn't sufficient by itself," says Ratcliffe. "To ensure good governance, you need a continual refocus on implications, review and enforcement.

4. Ally

Public charities that team up with an experienced provider — particularly one that can act as a fiduciary — can really make Form 990 work for them.

"Although investment management is our core activity," says Ratcliffe, "we bring a holistic approach to clients based on our hands-on experience in the nonprofit world. Our deep familiarity with issues like Form 990 lets us provide better fiduciary oversight."

He recommends seeking a provider with a staff that has worked in the sector and truly understands development, effectiveness, efficiency. Says Ratcliffe, "It will give your provider better insight into the challenges you face."

A high-def view of your organization, now seen by millions

Not only are public charities now required to detail how they govern themselves. This highly detailed snapshot of the organization is also more accessible and in public view than ever — thanks to the internet. "It's not just donors looking at this information online, it's everyone," says Greene.

Form 990s are available on state attorneys general websites, clearinghouses such as the National Center for Charitable Statistics' (NCSS) site, and elsewhere online. That's not the best news for public charities that aren't run well, in our view. But for organizations that can demonstrate good governance, it's a reward for their work in filing Form 990.

Are you fully leveraging IRS Form 990 for better governance?

Bank of America Merrill Lynch can assess your preparedness for filing Form 990 and consult on becoming fully compliant. Our consultants specialize in educating public charities on issues relating to governance, accountability, and transparency, all toward helping your organization fulfill its mission.

For more information on this topic, please contact your Merrill Lynch Financial Advisor.

The evolution of IRS Form 990

When it debuted in the 1941 tax reporting year, IRS Form 990 was a fairly simple document and remained so through the early 1980s. By 2000 the form was six pages long, had two schedules, and included a 42-page instruction book.

The current redesign tackles the standout issues of the last decade in corporate and nonprofit governance—the push for transparency and accountability after the abuses and scandals that culminated in the passage of Sarbanes-Oxley Act of 2002.

Says David Ratcliffe, "Governance oversight rests with the states. This is the IRS following through on a trend to help ensure that nonprofits are focused on good governance."

The states attorneys general saw the Form 990 filing requirement as an efficient way to address oversight and suggested most of the changes to the new form. Many states now require a copy of Form 990.

"In the ebb and flow of corporate oversight by the government, we're heading toward a more 'regulated' period," says Greene. "Sarbanes-Oxley tried to enforce good business practices. Form 990 does the same for charities. It basically says, we want somebody other than your auditor to look over your shoulders. We think it could benefit the entire nonprofit sector."

For More Information

BoardSource
boardsource.org

Independent Sector
independentsector.org

Council on Foundations
cof.org

Guidestar
www.guidestar.org

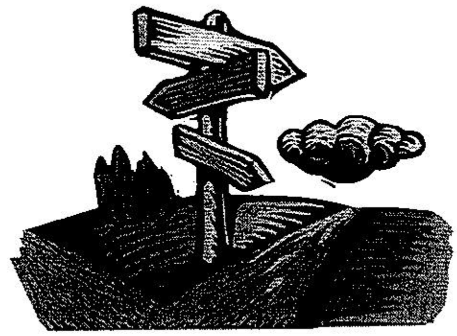
The Internal Revenue Service
www.irs.gov > Charities & Non-Profits

IRS telephone assistance for exempt organizations, retirement plan administrators, and government entities:
Toll-free, 1.877.829.5500
Hours of Operation: Monday through Friday,
7 a.m. to 5:30 p.m. Central.

The IRS's Exempt Organizations Update
"Free e-mail updates from the IRS about issues of tax policy, services and available information that impact tax-exempt organizations..."
www.irs.gov > Charities & Non-Profits >
EO Newsletter > subscribe

Financial Fraud and Abuse

In your current position, you may encounter situations in which employees, vendors, etc. may attempt to exploit or circumvent your organization's policies or assets for personal gain or benefit. Unfortunately, as managers you must be alert for these types of situations and be prepared to address them.



Financial Fraud in the Workplace

The 2010 Report to the Nation on Occupational Fraud and Abuse (by the Association of Certified Fraud Examiners) cites some interesting statistics, based on their analysis of 1,843 occupational fraud cases reported by CFEs who investigated them.

Median loss caused by frauds in the study was $160,000. 25% of losses were > $1million!

Financial Fraud in the Workplace

Just a few of ACFE's findings:

- ACFE's study estimates that 7% of annual revenues would be lost due to occupational fraud.
- Cash is the targeted asset most of the time (85% of the cases).
- Smaller businesses/organizations suffer a disproportionate share of the losses.
- Frauds lasted on average 18 months before being detected.
- In 85% of cases—fraudsters had never been previously charged or convicted.

Financial Fraud in the Workplace

Examples of asset misappropriation:

- Involve theft or misuse of an organization's assets.
- Examples include:

  a) Billing schemes—payment for fictitious goods/services or personal purchases.

  b) Payroll schemes—payment by making false claim for compensation or, such as "phantom" employees, inflated hours, etc.

  c) Skimming—cash is stolen from the organization before it is recorded in the accounting records.

  d) Non-cash—stealing inventory, etc.

  e) Expense reimbursement schemes—employees make false claims for reimbursement of fictitious or inflated business expenses.

Fraud Examples—Specific to Non-Profit Organizations

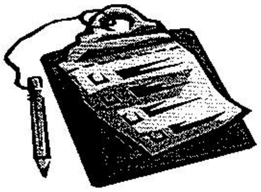
- Statistics from the ACFE study relative to non-profit organizations
- Specific examples of frauds experienced by non-profits
- Sharing of participant's experiences

Financial Fraud in the Workplace

- ACFE found that almost 90% of occupational fraud cases investigated involved asset misappropriation.
- Schemes were most commonly detected by receiving a tip from an employee (most common), customer, or vendor (40% of the time).
- Second most common method of detection: management review (15% of the time).
- Third and fourth most common methods of detection: internal audit (14% of the time) and by accident (8% of the time), respectively.
- Further details: www.acfe.com.

Preventing Financial Fraud and Abuse

- Things that you can do as managers to prevent/detect fraud and/or abuse of resources:



Summary and Wrap-Up

- Non-profit organizations have unique accounting issues (e.g., net assets)
- Analysis of a non-profit financial statement can provide insights into their effectiveness and financial strength
- Unfortunately, fraud impacts non-profits but can be limited through effective monitoring and controls

Contact Information

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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.

January Transactions (Cont'd)

11. Ending food inventory at the end of January was calculated to be $4,550.
12. A local senior citizen advises the program that he has named the Senior Meals Program as a beneficiary of his will, through a $100,000 life insurance policy.

Requirements

1. Complete the transaction analysis spreadsheet for each of the transactions for the month.

2. Prepare a statement of financial position as of January 31, 20xx (see handout).

3. Prepare a statement of activities for the month ended January 31, 20xx (see handout).

Suggested Financial Indicators/Ratios for Non-Profit Organizations

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

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

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

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

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	(80,000)
	135,943
Food Inventory	42,285
Total Current Assets	593,358
Buildings	320,000
TOTAL ASSETS	$ 913,358.00
LIABILITIES AND NET ASSETS	
Current Liabilitiies	
Unearned Revenue	$ -
Net Assets	
Unrestricted	437,415
Temporarily Restricted	125,943
Permanently Restricted	350,000
	913,358
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 Exley

RANDALL L. EXLEY, CPA
The Auditor General

KPMG

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
Total current assets		1,508,516		1,185,757
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
Total assets		3,861,362		3,518,225
Liabilities and Net Assets				
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
Total current liabilities		441,637		472,352
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
Total liabilities		1,902,475		1,845,759
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
Total net assets		1,958,887		1,672,466
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)				
Total liabilities and net assets	$	3,861,362	$	3,518,225

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	Totals 2009
Operating revenues and gains:					
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)	-	-	-
Total operating revenues and gains	3,362,054	215,260	27,121	3,604,435	3,320,269
Operating expenses:					
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
Total program services	3,102,170	-	-	3,102,170	3,160,993
Supporting services:					
Fund raising (Note 12)	130,193	-	-	130,193	126,580
Management and general	138,472	-	-	138,472	152,473
Total supporting services	268,665	-	-	268,665	279,053
Total operating expenses	3,370,835	-	-	3,370,835	3,440,046
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
Net assets, end of year	$ 448,142	$ 884,910	$ 625,835	$ 1,958,887	$ 1,672,466

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						
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief and Development Services	Total Program Services
Salaries and wages	$ 31,069	$ 973,465	$ 43,830	$ 89,999	$ 97,821	$ 20,169	$ 1,256,353
Employee benefits	7,627	239,379	11,294	23,110	24,819	4,988	311,217
Subtotal	38,696	1,212,844	55,124	113,109	122,640	25,157	1,567,570
Travel and maintenance	1,449	28,971	1,801	9,589	2,670	3,981	48,461
Equipment maintenance and rental	1,487	69,356	4,034	7,975	3,894	2,234	88,980
Supplies and materials	4,342	523,633	12,516	11,120	36,945	935	589,491
Contractual services	12,639	305,411	15,783	54,511	39,659	33,787	461,790
Financial and material assistance	5,358	3,431	12,129	59,916	3,227	183,894	267,955
Depreciation and amortization	1,329	51,143	3,891	12,644	7,911	1,005	77,923
Total expenses	$ 65,300	$ 2,194,789	$ 105,278	$ 268,864	$ 216,946	$ 250,993	$ 3,102,170

	Supporting Services			Total Expenses	
	Fund Raising	Management and General	Total Supporting Services	2010	2009
Salaries and wages	$ 55,104	$ 68,220	$ 123,324	$ 1,379,677	$ 1,378,901
Employee benefits	13,633	17,329	30,962	342,179	357,662
Subtotal	68,737	85,549	154,286	1,721,856	1,736,563
Travel and maintenance	2,742	2,592	5,334	53,795	77,584
Equipment maintenance and rental	1,458	3,379	4,837	93,817	99,595
Supplies and materials	12,684	3,572	16,256	605,747	616,929
Contractual services	39,386	34,099	73,485	535,275	567,617
Financial and material assistance	1,926	1,071	2,997	270,952	242,884
Depreciation and amortization	3,260	8,210	11,470	89,393	98,874
Total expenses	$ 130,193	$ 138,472	$ 268,665	$ 3,370,835	$ 3,440,046

See accompanying notes to the consolidated financial statements.

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

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

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

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

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	(80,000)
	135,943
Food Inventory	42,285
Total Current Assets	593,358
Buildings	320,000
TOTAL ASSETS	$ 913,358.00

LIABILITIES AND NET ASSETS	
Current Liabilitiies	
Unearned Revenue	$ -
Net Assets	
Unrestricted	437,415
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Permanently Restricted	350,000
	913,358
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
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A-2011-0011-FFR

26 October 2010

Independent Auditor's Report

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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 Exley

RANDALL L. EXLEY, CPA
The Auditor General

KPMG

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
Total current assets		1,508,516		1,185,757
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
Total assets		3,861,362		3,518,225
Liabilities and Net Assets				
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
Total current liabilities		441,637		472,352
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
Total liabilities		1,902,475		1,845,759
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
Total net assets		1,958,887		1,672,466
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)				
Total liabilities and net assets	$	3,861,362	$	3,518,225

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	Totals 2009
Operating revenues and gains:					
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)	-	-	-
Total operating revenues and gains	3,362,054	215,260	27,121	3,604,435	3,320,269
Operating expenses:					
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
Total program services	3,102,170	-	-	3,102,170	3,160,993
Supporting services:					
Fund raising (Note 12)	130,193	-	-	130,193	126,580
Management and general	138,472	-	-	138,472	152,473
Total supporting services	268,665	-	-	268,665	279,053
Total operating expenses	3,370,835	-	-	3,370,835	3,440,046
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
Net assets, end of year	$ 448,142	$ 884,910	$ 625,835	$ 1,958,887	$ 1,672,466

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						
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief and Development Services	Total Program Services
Salaries and wages	$ 31,069	$ 973,465	$ 43,830	$ 89,999	$ 97,821	$ 20,169	$ 1,256,353
Employee benefits	7,627	239,379	11,294	23,110	24,819	4,988	311,217
Subtotal	38,696	1,212,844	55,124	113,109	122,640	25,157	1,567,570
Travel and maintenance	1,449	28,971	1,801	9,589	2,670	3,981	48,461
Equipment maintenance and rental	1,487	69,356	4,034	7,975	3,894	2,234	88,980
Supplies and materials	4,342	523,633	12,516	11,120	36,945	935	589,491
Contractual services	12,639	305,411	15,783	54,511	39,659	33,787	461,790
Financial and material assistance	5,358	3,431	12,129	59,916	3,227	183,894	267,955
Depreciation and amortization	1,329	51,143	3,891	12,644	7,911	1,005	77,923
Total expenses	$ 65,300	$ 2,194,789	$ 105,278	$ 268,864	$ 216,946	$ 250,993	$ 3,102,170

	Supporting Services			Total Expenses	
	Fund Raising	Management and General	Total Supporting Services	2010	2009
Salaries and wages	$ 55,104	$ 68,220	$ 123,324	$ 1,379,677	$ 1,378,901
Employee benefits	13,633	17,329	30,962	342,179	357,662
Subtotal	68,737	85,549	154,286	1,721,856	1,736,563
Travel and maintenance	2,742	2,592	5,334	53,795	77,584
Equipment maintenance and rental	1,458	3,379	4,837	93,817	99,595
Supplies and materials	12,684	3,572	16,256	605,747	616,929
Contractual services	39,386	34,099	73,485	535,275	567,617
Financial and material assistance	1,926	1,071	2,997	270,952	242,884
Depreciation and amortization	3,260	8,210	11,470	89,393	98,874
Total expenses	$ 130,193	$ 138,472	$ 268,665	$ 3,370,835	$ 3,440,046

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:		
Change in net assets	$ 286,421	$ (887,171)
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)
Net cash provided by (used in) operating activities	391,543	(135,776)
Cash flows from investing activities:		
Purchases of property	(55,605)	(85,318)
Proceeds from sales of property	6,451	9,065
Purchases of investments	(467,655)	(93,788)
Proceeds from sales of investments	312,013	265,339
Net cash (used in) provided by investing activities	(204,796)	95,298
Cash flows from financing activities:		
Permanently restricted contributions	27,087	25,292
Proceeds from borrowings	225,646	87,504
Repayments of debt	(246,882)	(78,509)
Net cash provided by financing activities	5,851	34,287
Net increase (decrease) in cash and cash equivalents	192,598	(6,191)
Cash and cash equivalents, beginning of year	214,606	220,797
Cash and cash equivalents, end of year	$ 407,204	$ 214,606
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.

(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.

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.

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.

(Continued)

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

Class of property	Useful life in years
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.

(Continued)

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).

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

(Continued)

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):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	215,313	499,275	714,588

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

(Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	167,459	477,349	644,808

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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

(Continued)

(3) Contributions Receivable

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

		2010	2009
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)		23,944	20,439
Total contributions receivable before allowance for uncollectible amounts		101,500	100,651
Less allowance for uncollectible amounts		(1,601)	(1,749)
Contributions receivable, net		99,899	98,902
Less current portion		75,955	78,464
Contributions receivable, net, noncurrent	$	23,944	20,438

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):

		2010	2009
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		6,951	7,041
Total cost of assets placed in service		1,901,331	1,900,758
Less accumulated depreciation and amortization		(894,582)	(858,387)
Construction-in-progress		83,783	101,326
Land, buildings, and other property, net	$	1,090,532	1,143,697

(Continued)

(5) Debt

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

	2010	2009
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	591,295	392,041
Total bonds and notes payable	591,295	612,041
Obligations under capital leases (Note 6)	762	1,253
Total debt	592,057	613,294
Less current portion	39,812	115,613
Debt, noncurrent portion	$ 552,245	$ 497,681

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	464,165
Total	$ 592,057

(Continued)

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.

(Continued)

(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):

	Operating	Capital
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.

(Continued)

(7) Net Assets

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

		2010	2009
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	$	884,910	620,214

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 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):

	Fair value measurements at June 30, 2010			
	Level 1	Level 2	Level 3	Total
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
Total investments	$ 424,406	973,956	476,299	1,874,661
Less current portion				798,060
Investments, noncurrent				$ 1,076,601

	Fair value measurements at June 30, 2009			
	Level 1	Level 2	Level 3	Total
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.

(Continued)

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):

		Mortgage and asset backed securities	Alternative funds	Total
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)		(325)	(35,285)	(35,610)
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)		(161)	(45,204)	(45,365)
Balance at June 30, 2010	$	904	475,395	476,299
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2010	$	10	31,959	31,969
Total losses for the period included in income attributable to the change in unrealized losses at June 30, 2009	$	(752)	(138,711)	(139,463)

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.

(Continued)

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

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of hedge funds (a)	$ 74,047	$ —	annually, tri-annually	100 days
Global macro hedge funds (b)	21,846	—	monthly, quarterly, annually	5- 60 days
Hedged equity funds (c)	145,611	—	monthly, quarterly, annually	14- 90 days
Multistrategy and other hedge funds (d)	64,991	—	monthly, quarterly, 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	$ 774,916	$ 109,523		

(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

(Continued)

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.

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

		2010		
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 19,218	29,173	—	48,391
Net operating investment gains (losses)	(375)	579	—	204
Investment income available for operations	18,843	29,752	—	48,595
Net nonoperating investment gains	68,179	49,436	6,445	124,060
Total return on investments	$ 87,022	79,188	6,445	172,655

		2009		
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 31,284	33,250	30	64,564
Net operating investment gains (losses)	11,399	(432)	(30)	10,937
Investment income available for operations	42,683	32,818	—	75,501
Net nonoperating investment losses	(166,228)	(161,790)	(27,171)	(355,189)
Total return on investments	$ (123,545)	(128,972)	(27,171)	(279,688)

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

(Continued)

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

	Pension assets	
	2010	2009
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
	100%	100%

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):

	Fair value measurements at June 30, 2010			
	Level 1	Level 2	Level 3	Total
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
Total	$ 324,166	604,972	631,503	1,560,641

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):

		Alternative funds	Equity interest in participating annuity	Guaranteed accumulation fund	Total
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	$	535,152	38,339	58,012	631,503
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2010	$	31,111	52,491	4,343	87,945

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 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		(70,489)	(64,085)	(4,530)	(5,972)
Benefit obligations at end of year		2,243,022	2,020,908	79,911	80,539
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		(70,489)	(64,085)	—	—
Fair value of plan assets at end of year		1,560,641	1,372,433	—	—
Funded status/accrued benefit costs	$	(682,381)	(648,475)	(79,911)	(80,539)

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		(55,639)	2,054	(53,585)
Pension-related changes other than net periodic benefit cost	$	(54,449)	(31,227)	(85,676)

(Continued)

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

		Pension benefits	Postretirement benefits	Total
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	$	(546,983)	138,653	(408,330)

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

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

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

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

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

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

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.

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

	Pension benefits		Postretirement benefits	
	2010	2009	2010	2009
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:

	Pension benefits		Postretirement benefits	
	2010	2009	2010	2009
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):

		Pension benefits		Postretirement benefits	
		2010	2009	2010	2009
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	$	48,825	41,687	(27,325)	698

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

(Continued)

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.

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 coursess

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!