**American Red Cross FY09 Financial Results**
**A message from the Chief Financial Officer**

The American Red Cross ended its fiscal year 2009 with net assets of $1.7 billion, posting total operating revenues of $3.3 billion and total operating expenses of $3.4 billion. Behind these indicators of size and activity are four key numbers that help explain the organization's positive trajectory – and the challenges ahead.

**$33.5 million**: Our operating deficit.

- Red Cross day-to-day operating revenues and expenses, or profit and loss, are captured by the $33.5 deficit figure.
- Slashed from $209 million in FY08 and projected to be eliminated by fiscal year-end, the $33.5 million reflects the most progress toward financial recovery.

**$120 million**: Operating deficit *plus* the "spend-down" of long-term recovery programs.

- This number is fueled by donations for international and domestic disasters made in years past and being spent today.
- Non-profit accounting rules say that we must book donations during the year in which they are received. However, we often spend those donations across subsequent years, and so they appear as losses on our books in those years.
- This is what is happened with our tsunami and Hurricane Katrina funds, for example.

**$887 million**: The total deficit, according to the accounting rules called GAAP, that reflects our operating deficit, plus prior-year spend-down *and* our investment losses and pension liabilities, is $887 million.

- This figure also shows our change in net assets, because if you add last year's economic impact on our investments and endowment, plus the federal pension fund requirement, this financial hit boosts the deficit significantly, to the $887 million that appears in our audited financial statements.
- Our combined market losses are around $359 million, but our performance tends to exceed that of other not-for-profits.
- Our pension fund requirement of $547 million represents our obligation to our employees.
- Pension fund and investment results are projected to improve significantly for FY10.

**$613 million**: Red Cross debt.

- While we have put the Red Cross on the path to financial sustainability, our large debt is a challenge.
- Over the past year, we've made great strides in responding to disasters and other emergencies without taking on new debt. Our successful $100 million fundraising campaign essentially enabled us to cover the costs of last year's devastating hurricanes.
- We've gone to our bankers and have outlined our financial management strategy. They have responded that our credit is still good and we remain able to borrow additional working capital, should a major disaster strike.
- Largely made up of low-interest lines of credit and bonds, the bulk of Red Cross debt is due after 2011. However, $116 million is current, or due back in 2010.

We hope this detail will help place the American Red Cross fiscal year 2009 Audited Financial Statements in proper perspective.

Brian Rhoa
Chief Financial Officer

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

A-2010-0007-FFM

30 October 2009

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 2009. In the auditor's opinion, the American Red Cross statements are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The Act of Congress that incorporated the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and Army Regulation 930-5 (American National Red Cross Service Program and Army Utilization), requires the 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 2009 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.

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.

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 2009 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 2009 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.

PATRICK J. FITZGERALD, CPA
The Auditor General

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

23444WDC

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

## 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, 2009, 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 28 percent and total operating revenues and gains constituting 17 percent 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 2008 consolidated financial statements and, in our report dated October 13, 2008, 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, 2009, and the changes in its net assets, cash flows and its functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2 and 8 to the consolidated financial statements, the Organization adopted the provisions of FASB Staff Position No. FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* and FASB Statement No. 157*, Fair Value Measurements*, in 2009.

KPMG LLP

October 15, 2009

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Financial Position

June 30, 2009
(with comparative information as of June 30, 2008)
(In thousands)

| **Assets** | **2009** | **2008** |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 214,606 | $ 220,797 |
| Investments (Note 8) | 590,759 | 835,495 |
| Trade receivables, including grants, net of allowance for doubtful accounts of $3,576 in 2009 and $4,828 in 2008 | 130,969 | 70,150 |
| Contributions receivable (Note 3) | 78,464 | 95,010 |
| Inventories, net of allowance for obsolescence of $1,922 in 2009 and $2,858 in 2008 | 149,897 | 153,347 |
| Other current assets | 21,062 | 21,680 |
| Total current assets | 1,185,757 | 1,396,479 |
| Investments (Note 8) | 1,003,962 | 1,309,734 |
| Contributions receivable (Note 3) | 20,438 | 25,430 |
| Land, buildings, and other property, net (Note 4) | 1,143,697 | 1,163,805 |
| Other assets (Note 9) | 164,371 | 101,832 |
| Total assets | 3,518,225 | 3,997,280 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 323,585 | 341,535 |
| Current portion of debt (Note 5) | 115,613 | 256,489 |
| Postretirement benefits (Note 10) | 4,777 | 6,671 |
| Other current liabilities (Note 9) | 28,377 | 27,591 |
| Total current liabilities | 472,352 | 632,286 |
| Debt (Note 5) | 497,681 | 347,632 |
| Pension and postretirement benefits (Note 10) | 724,237 | 326,528 |
| Other liabilities (Notes 5 and 9) | 151,489 | 131,197 |
| Total liabilities | 1,845,759 | 1,437,643 |
| Net assets (Notes 2 and 7): | | |
| Unrestricted net assets | 459,983 | 1,035,920 |
| Temporarily restricted net assets | 620,214 | 930,160 |
| Permanently restricted net assets | 592,269 | 593,557 |
| Total net assets | 1,672,466 | 2,559,637 |
| Commitments and contingencies (Notes 5, 6, 10, 11, and 13) | | |
| Total liabilities and net assets | $ 3,518,225 | $ 3,997,280 |

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Activities

Year ended June 30, 2009
(with summarized information for the year ended June 30, 2008)
(In thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2009 | Totals 2008 |
|---|---|---|---|---|---|
| Operating revenues and gains: | | | | | |
| Contributions: | | | | | |
| Corporate, foundation and individual giving | $ 195,326 | $ 188,239 | $ - | $ 383,565 | $ 411,617 |
| United Way and other federated | 43,130 | 86,783 | - | 129,913 | 141,700 |
| Legacies and bequests | 58,880 | 7,601 | 25,883 | 92,364 | 115,921 |
| Services and materials | 21,870 | 27,913 | - | 49,783 | 45,064 |
| Grants | 26,342 | 55,304 | - | 81,646 | 68,578 |
| Products and services: | | | | | |
| Biomedical | 2,213,961 | - | - | 2,213,961 | 2,118,581 |
| Program materials | 149,473 | 135 | - | 149,608 | 150,653 |
| Contracts, including federal government | 129,778 | - | - | 129,778 | 51,363 |
| Investment income (Note 8) | 42,683 | 32,818 | - | 75,501 | 92,481 |
| Other revenues | 14,150 | - | - | 14,150 | 8,188 |
| Net assets released from restrictions | 546,949 | (546,949) | - | - | - |
| Total operating revenues and gains | 3,442,542 | (148,156) | 25,883 | 3,320,269 | 3,204,146 |
| Operating expenses: | | | | | |
| Program services: | | | | | |
| Services to the Armed Forces | 56,511 | - | - | 56,511 | 57,900 |
| Biomedical services (Note 13) | 2,216,730 | - | - | 2,216,730 | 2,204,010 |
| Community services | 113,846 | - | - | 113,846 | 127,450 |
| Domestic disaster services | 402,372 | - | - | 402,372 | 502,216 |
| Health and safety services | 215,492 | - | - | 215,492 | 238,992 |
| International relief and development services | 156,042 | - | - | 156,042 | 191,892 |
| Total program services | 3,160,993 | - | - | 3,160,993 | 3,322,460 |
| Supporting services: | | | | | |
| Fund raising (Note 12) | 126,580 | - | - | 126,580 | 143,425 |
| Management and general | 152,473 | - | - | 152,473 | 218,477 |
| Total supporting services | 279,053 | - | - | 279,053 | 361,902 |
| Total operating expenses | 3,440,046 | - | - | 3,440,046 | 3,684,362 |
| Change in net assets from operations | 2,496 | (148,156) | 25,883 | (119,777) | (480,216) |
| Nonoperating losses, net (Notes 5 and 8) | (170,103) | (161,790) | (27,171) | (359,064) | (107,520) |
| Pension-related changes other than net periodic benefit cost (Note 10) | (408,330) | - | - | (408,330) | (76,930) |
| Change in net assets | (575,937) | (309,946) | (1,288) | (887,171) | (664,666) |
| Net assets, beginning of year | 1,035,920 | 930,160 | 593,557 | 2,559,637 | 3,224,303 |
| Net assets, end of year | $ 459,983 | $ 620,214 | $ 592,269 | $ 1,672,466 | $ 2,559,637 |

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Statement of Functional Expenses

Year ended June 30, 2009
(with summarized information for the year ended June 30, 2008)
(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 | $ 30,420 | $ 966,717 | $ 45,187 | $ 98,327 | $ 101,357 | $ 18,419 | $ 1,260,427 |
| Employee benefits | 7,672 | 253,506 | 11,416 | 25,502 | 24,755 | 4,892 | 327,743 |
| Subtotal | 38,092 | 1,220,223 | 56,603 | 123,829 | 126,112 | 23,311 | 1,588,170 |
| Travel and maintenance | 1,476 | 31,461 | 1,890 | 30,578 | 2,864 | 3,441 | 71,710 |
| Equipment maintenance and rental | 1,002 | 64,562 | 4,919 | 19,125 | 4,382 | 986 | 94,976 |
| Supplies and materials | 4,102 | 529,942 | 14,787 | 17,069 | 33,232 | 851 | 599,983 |
| Contractual services | 8,116 | 310,428 | 19,224 | 76,401 | 38,218 | 27,465 | 479,852 |
| Financial and material assistance | 2,263 | 2,064 | 12,587 | 120,758 | 2,548 | 99,100 | 239,320 |
| Depreciation and amortization | 1,460 | 58,050 | 3,836 | 14,612 | 8,136 | 888 | 86,982 |
| Total expenses | $ 56,511 | $ 2,216,730 | $ 113,846 | $ 402,372 | $ 215,492 | $ 156,042 | $ 3,160,993 |

| | Supporting Services | | | Total Expenses | |
|---|---|---|---|---|---|
| | **Fund Raising** | **Management and General** | **Total Supporting Services** | **2009** | **2008** |
| Salaries and wages | $ 51,627 | $ 66,847 | $ 118,474 | $ 1,378,901 | $ 1,394,034 |
| Employee benefits | 12,716 | 17,203 | 29,919 | 357,662 | 393,111 |
| Subtotal | 64,343 | 84,050 | 148,393 | 1,736,563 | 1,787,145 |
| Travel and maintenance | 2,976 | 2,898 | 5,874 | 77,584 | 84,751 |
| Equipment maintenance and rental | 1,334 | 3,285 | 4,619 | 99,595 | 105,275 |
| Supplies and materials | 13,958 | 2,988 | 16,946 | 616,929 | 607,902 |
| Contractual services | 39,206 | 48,559 | 87,765 | 567,617 | 602,413 |
| Financial and material assistance | 1,799 | 1,765 | 3,564 | 242,884 | 384,841 |
| Depreciation and amortization | 2,964 | 8,928 | 11,892 | 98,874 | 112,035 |
| Total expenses | $ 126,580 | $ 152,473 | $ 279,053 | $ 3,440,046 | $ 3,684,362 |

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Cash Flows

Year ended June 30, 2009
(with comparative information for the year ended June 30, 2008)
(In thousands)

| | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (887,171) | $ (664,666) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 98,874 | 112,032 |
| Provision for doubtful accounts receivable | 4,578 | 97 |
| Provision for obsolete inventory | 574 | 59 |
| Net (gain)/loss on sales of property | (2,330) | 299 |
| Net investment and derivative losses | 344,173 | 96,559 |
| Pension related changes other than net periodic benefit cost | 408,330 | 76,930 |
| Permanently restricted contributions | (25,883) | (39,095) |
| Changes in operating assets and liabilities: | | |
| Receivables | (43,860) | 40,689 |
| Inventories | 2,876 | (740) |
| Other assets | (24,184) | 5,428 |
| Accounts payable and accrued expenses | (17,949) | (28,349) |
| Other liabilities | 18,710 | 13,381 |
| Pension and postretirement benefits | (12,514) | 21,647 |
| Net cash used in operating activities | (135,776) | (365,729) |
| Cash flows from investing activities: | | |
| Purchases of property | (85,318) | (76,882) |
| Proceeds from sales of property | 9,065 | 6,956 |
| Purchases of investments | (93,788) | (424,572) |
| Proceeds from sales of investments | 265,339 | 721,482 |
| Net cash provided by investing activities | 95,298 | 226,984 |
| Cash flows from financing activities: | | |
| Permanently restricted contributions | 25,292 | 34,231 |
| Proceeds from borrowings | 87,504 | 186,493 |
| Repayments of debt | (78,509) | (72,422) |
| Net cash provided by financing activities | 34,287 | 148,302 |
| Net (decrease)/increase in cash and cash equivalents | (6,191) | 9,557 |
| Cash and cash equivalents, beginning of year | 220,797 | 211,240 |
| Cash and cash equivalents, end of year | $ 214,606 | $ 220,797 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | $ 23,233 | $ 29,687 |
| Noncash investing and financing transactions: | | |
| Acquisition of equipment under capital lease agreements | $ 178 | $ 312 |

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 36 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, 2008, 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 $84 million and $95 million as of June 30, 2009 and 2008, respectively.

**Investments:** Investments are reported at fair value except for certain corporate bonds and notes, common and preferred stocks and alternative funds that are reported at estimated fair value utilizing net asset values. 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 used 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:** Effective July 1, 2008, the Organization adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157) for fair value measurements of financial assets and financial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements (Note 8).

Investments are reported at 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, 2009 and 2008 (in thousands):

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Noncurrent debt | $ 497,681 | $ 495,513 | $ 347,632 | $ 347,999 |

**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 as such 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.

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 were approximately $110 million and $94 million at June 30, 2009 and 2008, respectively.

**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 delivery 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.

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 non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Organization recorded contributed services revenue for the years ended June 30, 2009 and 2008 of approximately $5 million and $12 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 the years ended June 30, 2009 and 2008, research and development expenses incurred by Biomedical Services was approximately $6 million and $7 million, respectively.

**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 year ended June 30, 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 FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS No. 140). 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:** In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 also includes a technical amendment to FASB Statement No. 132(R), effective immediately, which requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. The Organization is currently evaluating the impact of the FSP on its disclosures about plan assets.

In June 2009, FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 166 eliminates the concept of a "qualifying special-purpose entity" and associated guidance that had been a significant source of complexity. SFAS No. 166 creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, provides clarification on other sale-accounting criteria and changes the initial measurement of a transferor's interest in transferred financial assets. SFAS No. 166 is effective for financial statements whose first reporting period



(Continued)

begins after November 15, 2009. The Organization is evaluating the impact SFAS No. 166 will have on the financial statements.

**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. 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. The Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the 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 funds managers. The Organization expects the Endowment Fund to provide an average real rate of return of 5% 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 targets an investment return over a seven year period.

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 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 4.7% for 2009 and 4.75% for 2008 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately $33 million and $29 million for the years ended June 30, 2009 and 2008, respectively. Approximately $17 million and $5 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2009 and 2008, respectively. A spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2010.

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 assets for expenditure | — | (32,627) | — | (32,627) |
| | $ — | $ 167,459 | $ 477,349 | $ 644,808 |

Net asset classification by type of endowment as of June 30, 2008 (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ — | $ 325,285 | $ 447,292 | $ 772,577 |

Changes in endowment net assets for the year ended June 30, 2008 (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ — | $ 359,590 | $ 404,369 | $ 763,959 |
| Investment return: | | | | |
| Investment income | — | 28,910 | — | 28,910 |
| Net depreciation (realized and unrealized gains and losses) | — | (34,305) | — | (34,305) |
| Total investment return | — | (5,395) | — | (5,395) |
| Contributions | — | — | 42,923 | 42,923 |
| Appropriation of assets for expenditure | — | (28,910) | — | (28,910) |
| | $ — | $ 325,285 | $ 447,292 | $ 772,577 |



(Continued)

## (3) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2009 and 2008 (in thousands):

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Amount receivable within one year | $ | 80,212 | $ | 96,960 |
| Amount receivable in 1 to 5 years (net discount of $3,755 and $4,888 for 2009 and 2008, respectively) | | 20,439 | | 25,430 |
| Total contributions receivable before allowance for uncollectible amounts | | 100,651 | | 122,390 |
| Less allowance for uncollectible amounts | | (1,749) | | (1,950) |
| Contributions receivable, net | | 98,902 | | 120,440 |
| Less current portion | | (78,464) | | (95,010) |
| Contributions receivable, net, noncurrent | $ | 20,438 | $ | 25,430 |

Amounts presented above have been discounted to present value using rates averaging approximately 4 %. The Organization had commitments from donors for conditional contributions approximating $2 million and $3 million at June 30, 2009 and 2008, 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, 2009 and 2008 (in thousands):

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Land | $ | 106,087 | $ | 104,273 |
| Buildings and improvements | | 1,119,772 | | 1,100,186 |
| Equipment and software | | 667,858 | | 806,449 |
| Buildings and equipment under capital lease | | 7,041 | | 9,150 |
| Total cost of assets placed in service | | 1,900,758 | | 2,020,058 |
| Less accumulated depreciation and amortization | | (858,387) | | (986,699) |
| Construction-in-progress | | 101,326 | | 130,446 |
| Land, buildings, and other property, net | $ | 1,143,697 | $ | 1,163,805 |

## (5) Debt

Debt consists of the following at June 30, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Borrowings on lines of credit, due in 2010 through 2011, bearing interest at an average rate of 2.4% in 2009 and 4.6% in 2008 | $ 220,000 | $ 235,000 |
| Various notes, mortgages and bonds payable, bearing interest at rates ranging from 0.1% to 5.6% due 2010 through 2035, 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 | 392,041 | 366,946 |
| Total bonds and notes payable | 612,041 | 601,946 |
| Obligations under capital leases (Note 6) | 1,253 | 2,175 |
| Total debt | 613,294 | 604,121 |
| Less current portion | (115,613) | (256,489) |
| Debt, noncurrent portion | $ 497,681 | $ 347,632 |

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 and $271 million as of June 30, 2009 and 2008, 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, 2009 are as follows (in thousands):

| | |
|---|---|
| 2010 | $ 115,613 |
| 2011 | 35,130 |
| 2012 | 34,556 |
| 2013 | 39,419 |
| 2014 | 9,588 |
| Thereafter | 378,988 |
| Total | $ 613,294 |

Interest expense was approximately $23 million and $27 million for the years ended June 30, 2009 and 2008, respectively, which is included in contractual services on the statement of functional expenses.

**Bank Lines of Credit:** The Organization maintained numerous committed and uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2009 and 2008, $220 million and $235 million respectively had been borrowed under lines of credit to support operations. The Organization had unused lines of credit outstanding of approximately $455 million at June 30, 2009, which include a $300 million private shelf agreement with Prudential (Note 14).

**Interest Rate Swap Agreements:** The Organization applies the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard requires certain derivative financial instruments to be recorded at fair value. The Organization held variable rate debt of approximately $461 million and $505 million at June 30, 2009 and 2008, 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 market and recorded at fair value on the statement of financial position. At June 30, 2009 and 2008, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2011 through 2013, totaled $60 million and $107 million, respectively. At June 30, 2009 and 2008, the estimated fair value of the interest rate swap agreements was a liability of approximately $3.6 million and $1.3 million, respectively, and is included in other liabilities in the accompanying consolidated statement of financial position as of June 30, 2009 and 2008.

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

| | Fair Value Measurements at June 30, 2009: | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Interest rate swap | $ — | $ 3,641 | $ — |

For the valuation of the interest rate swap at June 30, 2009, the Organization used pricing models based on 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.

The change in fair value on these interest rate swap agreements was a loss of approximately $2.4 million and $0.6 million for the years ended June 30, 2009 and June 30, 2008, respectively, and is included as nonoperating losses in the consolidated statement of activities.

**Letters of Credit:** The Organization had unused letters of credit outstanding of approximately $57 million at June 30, 2009.

## (6) Leases

The Organization leases certain buildings and equipment for use in its operations. The following summarizes as of June 30, 2009, minimum future rental payments under capital and noncancelable operating leases for the fiscal years ending June 30 (in thousands):

| | | Operating | | Capital |
|---|---|---|---|---|
| 2010 | $ | 32,018 | $ | 564 |
| 2011 | | 25,110 | | 460 |
| 2012 | | 18,160 | | 239 |
| 2013 | | 13,911 | | 76 |
| 2014 | | 8,229 | | 28 |
| Thereafter | | 16,372 | | 16 |
| Total minimum lease payments | $ | 113,800 | $ | 1,383 |
| Less amounts representing interest | | | | (130) |
| Present value of net minimum lease payments (Note 5) | | | $ | 1,253 |

Total rent expense was approximately $64 million and $69 million for the years ended June 30, 2009 and 2008, respectively and is included in contractual services on the statement of functional expenses.

## (7) Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2009 and 2008 (in thousands):

| | | 2009 | | 2008 |
|---|---|---|---|---|
| Disaster services | $ | 122,516 | $ | 105,498 |
| Hurricanes Katrina, Rita & Wilma Disaster Relief | | 21,137 | | 69,271 |
| Liberty disaster relief – September 11 response | | 1,459 | | 1,951 |
| Biomedical services | | 8,431 | | 10,273 |
| Health and safety services | | 2,908 | | 3,633 |
| International relief and development services | | 56,430 | | 59,043 |
| Tsunami relief and recovery | | 88,981 | | 176,118 |
| Community services | | 11,687 | | 10,764 |
| Buildings and equipment | | 28,040 | | 31,960 |
| Endowment inflation adjustment reserve | | 141,000 | | 148,228 |
| Endowment assets available for future appropriation | | 26,459 | | 177,057 |
| Other specific purposes | | 28,731 | | 42,101 |
| Time restricted | | 82,435 | | 94,263 |
| Total temporarily restricted net assets | $ | 620,214 | $ | 930,160 |

As a result of Hurricanes Katrina, Rita and Wilma, that hit the gulf coast in August, September, and October 2005, the Organization received monetary donations, in-kind donations, and FEMA reimbursements through the end of fiscal year 2008 totaling approximately $2.6 billion. The Organization has provided over $2.5 billion in immediate and long term recovery efforts for these hurricanes. The remaining net asset balance of approximately $21 million will be devoted primarily to long-term recovery needs of the local communities in the wake of these storms.

On December 26, 2004, a 9.0 magnitude earthquake hit off the coast of Indonesia causing a large tsunami and unprecedented damage to over 12 countries. As a result of the generous support of the American public, the Organization has received over $581 million of donations for the Tsunami Relief and Recovery Fund. As of June 30, 2009 the Organization has provided approximately $492 million towards immediate assistance and recovery efforts. The remaining net asset balance of approximately $89 million will continue to be used for long-term tsunami recovery efforts in the following six service delivery areas: water and sanitation, psychosocial support, health, shelter, livelihoods and disaster preparedness.

Permanently restricted net assets at June 30, 2009 consist primarily of endowed contributions, the income from which is available principally to fund general operations.

## (8) Investments

The following schedule summarizes the composition of investment return for the years ended June 30, 2009 and 2008 (in thousands):

| | 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) |

| | 2008 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Dividends and interest | $ 54,350 | $ 29,992 | $ 60 | $ 84,402 |
| Net operating investment gains/(losses) | 8,265 | (126) | (60) | 8,079 |
| Investment income available for operations | 62,615 | 29,866 | — | 92,481 |
| Net nonoperating investment gains/(losses) | (80,787) | (34,950) | 11,629 | (104,108) |
| Total return on investments | $ (18,172) | $ (5,084) | $ 11,629 | $ (11,627) |

The Organization adopted SFAS No. 157 on July 1, 2008 for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 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 in put that is significant to the fair value measurement. The Select Investment Program'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.

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2009 and 2008 (in thousands):

| | Fair Value Measurements at June 30, 2009 | | | | |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **June 30, 2009** | **June 30, 2008** |
| U.S. Government securities | $ 56,361 | $ 51,059 | $ — | $ 107,420 | $ 173,276 |
| Corporate bonds and notes | 13,372 | 204,773 | 9,003 | 227,148 | 264,717 |
| Common and preferred stocks | 195,526 | 113,993 | 133,054 | 442,573 | 676,694 |
| Mortgage and asset backed securities | — | 112,662 | 985 | 113,647 | 180,290 |
| Marketable and nonmarketable alternative funds | — | — | 323,873 | 323,873 | 410,893 |
| Commodities | — | 11,078 | — | 11,078 | — |
| Money market and other | 177,510 | 191,472 | — | 368,982 | 439,359 |
| Total investments | $ 442,769 | $ 685,037 | $ 466,915 | $ 1,594,721 | $ 2,145,229 |
| Less current portion | | | | (590,759) | (835,495) |
| Investments, noncurrent | | | | $ 1,003,962 | $ 1,309,734 |

For the valuation of certain government, corporate, preferred obligation bonds, bond mutual and commingled funds, commodities, common and preferred stock and common stock mutual and commingled funds at June 30, 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 government, corporate, preferred obligation bonds, bond mutual and commingled funds, commodities, common and preferred stock and common stock mutual and commingled funds at June 30, 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, certain corporate bonds and notes, common and preferred stocks, mortgage and asset backed securities at June 30, 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 manager and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

In conjunction with the adoption of SFAS No. 157, the Organization elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, "*Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*" to certain investments in funds that do not

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have readily determinable fair values including private investments, hedge funds, and other funds. This guidance amends SFAS No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to SFAS No. 157. Investments in corporate bonds and notes and common and preferred stocks of approximately $437 million and investments in alternative funds of approximately $324 million are reported at estimated fair value utilizing net asset values as of June 30, 2009.

The following table presents the Organization's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 for the year ended June 30, 2009 (in thousands):

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | |
|---|---|---|---|---|---|
| | **Corporate bonds and notes** | **Common and preferred stocks** | **Mortgage and asset backed securities** | **Alternative Funds** | **Total** |
| Beginning balance | $ 13,120 | $ 166,890 | $ 1,839 | $ 410,893 | $ 592,742 |
| Total realized and unrealized losses | (2,117) | (29,037) | (529) | (58,534) | (90,217) |
| Purchases, issuance and settlements (net) | (2,000) | (4,799) | (325) | (28,486) | (35,610) |
| Ending balance | $ 9,003 | $ 133,054 | $ 985 | $ 323,873 | $ 466,915 |
| Total gains/(losses) for the period included in income attributable to the change in unrealized gains/(losses) at the reporting date | $ (1,770) | $ (32,165) | $ (752) | $ (104,776) | $ (139,463) |

As of June 30, 2009 and 2008, respectively, the Organization held approximately $324 million and $411 million of alternative investments that include absolute return or hedge funds, limited partnership funds, and common and collective trust funds.

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, 2009. 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.

## (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 $152 million in assets under these agreements, which are included in other assets on the consolidated statement of financial position, $36 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 $4 million is included with other current liabilities and $18 million is included with other noncurrent liabilities on the consolidated statement of financial position.

## (10) Benefit Plans

**Pension and Postretirement Plans:** Employees of the American Red Cross, including participating local chapters, are 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.

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 pension, 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 2009 and 2008, the Organization contributed 4.25 percent of covered payroll to the Retirement System.

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. The Plan assets were invested in the following categories at June 30, 2009 and 2008:

| | **Pension Assets** | |
|---|---|---|
| | **2009** | **2008** |
| Cash and short-term investments | 8% | 5% |
| Domestic equity | 16% | 25% |
| International equity | 16% | 18% |
| Fixed income deflation hedge | 33% | 20% |
| Commodities | 2% | — |
| Inflation hedge | — | 12% |
| Marketable and nonmarketable alternative funds | 25% | 20% |
| | 100% | 100% |

The Plan assets were within authorized asset allocation ranges at June 30, 2009 and 2008.

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 $91 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. These events triggered a remeasurement of the postretirement benefit plan obligations as of December 31, 2008 to reflect the plan curtailment and plan changes. A curtailment gain of $10 million was recognized and is included in pension-related changes other than net periodic benefit cost in the accompanying consolidated statement of activities.

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, 2009 and 2008 (in thousands):

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Changes in benefit obligations** | | | | |
| Benefit obligations at beginning of year | $ 1,811,220 | $ 1,813,531 | $ 224,466 | $ 234,009 |
| Service cost | 49,282 | 49,606 | 6,917 | 13,712 |
| Interest cost | 119,891 | 114,502 | 10,213 | 14,421 |
| Plan amendment | — | — | (169,892) | — |
| Actuarial (gain) loss | 104,600 | (108,882) | 14,807 | (31,824) |
| Benefits paid | (64,085) | (57,537) | (5,972) | (5,852) |
| Benefit obligations at end of year | $ 2,020,908 | $ 1,811,220 | $ 80,539 | $ 224,466 |
| **Changes in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 1,702,487 | $ 1,812,918 | $ — | $ — |
| Actual return on plan assets | (314,895) | (101,213) | — | — |
| Employer contributions | 48,926 | 48,319 | — | — |
| Benefits paid | (64,085) | (57,537) | — | — |
| Fair value of plan assets at end of year | $ 1,372,433 | $ 1,702,487 | $ — | $ — |
| **Funded status/accrued benefit costs** | $ (648,475) | $ (108,733) | $ (80,539) | $ (224,466) |

Pension-related changes other than net periodic benefit cost under SFAS No. 158 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 pension cost | $ (546,983) | $ 138,653 | $ (408,330) |

Pension-related changes other than net periodic benefit cost under SFAS No. 158 for 2008:

| | Pension benefits | Postretirement benefits | Total |
|---|---|---|---|
| Prior service credit (cost) | $ 2,083 | $ (1,216) | $ 867 |
| Net actuarial gain/(loss) | (109,621) | 31,824 | (77,797) |
| Pension-related changes other than net periodic pension cost | $ (107,538) | $ 30,608 | $ (76,930) |

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 |

Items not yet recognized as a component of net periodic benefit cost for 2008:

| | Pension benefits | Postretirement benefits | Total |
|---|---|---|---|
| Unrecognized prior service credit (cost) | $ 4,306 | $ (12,155) | $ (7,849) |
| Unrecognized net actuarial loss | (30,801) | (11,272) | (42,073) |
| | $ (26,495) | $ (23,427) | $ (49,922) |

Estimated amounts to be amortized into net periodic benefit cost over the next fiscal year relate to prior service costs are $1.2 million and $33.3 million for the pension plan and postretirement benefits plan, respectively.

The accumulated benefit obligation for the pension plan was approximately $1.9 billion and $1.7 billion as of June 30, 2009 and 2008, respectively.


(Continued)

The weighted average assumptions used to determine benefit obligations for 2009 and 2008 were as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Discount rate | 6.40% | 6.75% | 6.25% | 6.75% |
| Rate of compensation increase | 5.00% | 5.00% | — | — |

The weighted average assumptions used to determine net benefit cost for 2009 and 2008 were as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Discount rate | 6.75% | 6.25% | 6.75% | 6.25% |
| 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 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 at that level thereafter. A 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2008. The rate was assumed to decrease gradually to 6 percent for 2012 and remain thereafter for fiscal year 2008.



(Continued)

The components of net periodic benefit cost for the years ended June 30, 2009 and 2008 were (in thousands):

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Service cost | $ 49,283 | $ 49,606 | $ 6,917 | $ 13,712 |
| Interest cost | 119,891 | 114,502 | 10,213 | 14,421 |
| Expected return on plan assets | (129,394) | (117,290) | — | — |
| Amortization of prior service cost | 1,907 | 2,083 | (17,249) | (1,216) |
| Net curtailment gain | — | — | 817 | — |
| Net periodic benefit cost | $ 41,687 | $ 48,901 | $ 698 | $ 26,917 |

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 | $ 476 | $ (392) |
| Effect on postretirement benefit obligation | $ 145 | $ (126) |

The Organization expects to contribute approximately $124 million to its pension plan and $5 million to its postretirement benefit plan during the year ended June 30, 2010.

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 |
|---|---|---|
| 2010 | $ 78,734 | $ 4,777 |
| 2011 | 88,516 | 5,122 |
| 2012 | 98,481 | 5,496 |
| 2013 | 108,786 | 5,877 |
| 2014 | 119,134 | 6,262 |
| 2015 – 2019 | 738,706 | 33,875 |
| | $ 1,232,357 | $ 61,409 |

**American National Red Cross Savings Plan – 401(k) Plan:** The Organization participates in 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% of the first

4% of pay contributed each pay period by the participant. As of May 1, 2009 the American Red Cross temporarily suspended the employer match. For the 2009 calendar year, contribution limits were based on a maximum annual compensation of $245,000. As of June 30, 2009, 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. The Organization contributed approximately $21 million and $31 million to the Savings Plan for fiscal years 2009 and 2008, respectively.

## (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 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 SFAS No. 140. As of June 30, 2009, the outstanding balance of securitized accounts receivable held by the third party conduit was approximately $170 million of which the Organization's subordinated retained interest was approximately $20 million. Accordingly, $150 million, net of applicable allowances, were removed from the consolidated statement of financial position as of June 30, 2009. Expenses associated with the program totaled approximately $3.5 million and $7 million in the years ended June 30, 2009 and 2008, respectively.

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, 2009 and 2008, the Organization incurred joint costs of approximately $7 million and $4 million, respectively, for informational materials and activities that included fund raising appeals. Of those costs, $2.2 million and $2.2 million were allocated to fund raising, $1.8 million and $0.7 million to disaster services, $1.8 million and $0.7 million to health and safety services, and $1.2 million and $0.4 million to other services for the years ended June 30, 2009 and 2008, 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, including the Organization. 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 Organization 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 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

In September, 2009, the Organization advanced $120 million from a $300 million private shelf agreement with Prudential through the sale of Series A Notes bearing a fixed rate of interest of 5.85%. These notes have an average life of 12 years and a final maturity date of September 14, 2023. The proceeds were used to pay down $120 million bank line of credit borrowing, which reduced the Organization's total bank line of credit borrowing from $220 million to $100 million.

In addition, the Organization has renewed its committed line of credit agreement that resulted in a $35 million decrease in amounts available under line of credit agreements.

The Organization has evaluated subsequent events through the date the financial statements were issued, October 15, 2009.