

THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)



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 (American Red Cross) as of June 30, 2008, 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 American Red Cross. 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 percent and total revenues and gains constituting 18 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 American Red Cross' 2007 consolidated financial statements and, in our report dated October 16, 2007, we expressed an unqualified opinion on those consolidated financial statements which included an explanatory paragraph regarding American Red Cross' adoption of the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

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 American Red Cross' 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 13, 2008

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Consolidated Statement of Financial Position

June 30, 2008

(with comparative information as of June 30, 2007)

(In thousands)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 220,797	\$ 211,240
Investments (Notes 8 and 9)	835,495	1,088,021
Trade receivables, including grants, net of allowance for doubtful accounts of \$4,828 in 2008 and \$4,274 in 2007	70,150	104,981
Contributions receivable (Note 3)	95,010	94,532
Inventories, net of allowance for obsolescence of \$2,858 in 2008 and \$2,630 in 2007	153,347	152,666
Other current assets	21,680	20,505
Total current assets	1,396,479	1,671,945
Investments (Notes 8 and 9)	1,309,734	1,450,146
Contributions receivable (Note 3)	25,430	31,863
Land, buildings, and other property, net (Note 4)	1,163,805	1,205,898
Other assets (Note 9)	101,832	103,571
Total assets	3,997,280	4,463,423
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	341,535	369,884
Current portion of debt (Note 5)	256,489	136,400
Postretirement benefits (Note 10)	6,671	6,621
Other current liabilities (Note 9)	27,591	27,789
Total current liabilities	632,286	540,694
Debt (Note 5)	347,632	353,338
Pension and postretirement benefits (Note 10)	326,528	228,001
Other liabilities (Note 9)	131,197	117,087
Total liabilities	1,437,643	1,239,120
Net assets (Note 2 and 7):		
Unrestricted net assets	1,035,920	1,801,654
Temporarily restricted net assets	930,160	879,816
Permanently restricted net assets	593,557	542,833
Total net assets	2,559,637	3,224,303
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)		
Total liabilities and net assets	\$ 3,997,280	\$ 4,463,423

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2008
 (with summarized information for the year ended June 30, 2007)
 (In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2008	2007
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	\$ 218,510	\$ 193,107	\$ -	\$ 411,617	\$ 321,727
United Way and other federated	45,257	96,443	-	141,700	158,511
Legacies and bequests	67,066	9,760	39,095	115,921	114,506
Services and materials	16,791	28,273	-	45,064	42,408
Grants	28,048	40,530	-	68,578	68,546
Products and services:					
Biomedical	2,118,581	-	-	2,118,581	2,071,781
Program materials	150,469	184	-	150,653	157,797
Contracts, including federal government	51,363	-	-	51,363	48,136
Investment income (Note 8)	62,615	29,866	-	92,481	135,663
Other revenues	6,953	1,235	-	8,188	56,166
Net assets released from restrictions	673,542	(673,542)	-	-	-
Total operating revenues and gains	3,439,195	(274,144)	39,095	3,204,146	3,175,241
Operating expenses:					
Program services:					
Services to the Armed Forces	57,900	-	-	57,900	55,219
Biomedical services (Note 13)	2,204,010	-	-	2,204,010	2,064,355
Community services	127,450	-	-	127,450	131,214
Domestic disaster services	502,216	-	-	502,216	442,439
Health and safety services	238,992	-	-	238,992	243,673
International relief and development services	191,892	-	-	191,892	142,272
Total program services	3,322,460	-	-	3,322,460	3,079,172
Supporting services:					
Fund raising (Note 12)	143,425	-	-	143,425	142,711
Management and general	218,477	-	-	218,477	229,411
Total supporting services	361,902	-	-	361,902	372,122
Total operating expenses	3,684,362	-	-	3,684,362	3,451,294
Change in net assets from operations	(245,167)	(274,144)	39,095	(480,216)	(276,053)
Nonoperating gains/(losses) (Notes 5 and 8)	(84,199)	(34,950)	11,629	(107,520)	187,941
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 10)	-	-	-	-	126,852
Pension-related changes other than net periodic cost (Note 10)	(76,930)	-	-	(76,930)	-
Net asset reclassification based on recently enacted endowment legislation (Note 2 and 7)	(359,438)	359,438	-	-	-
Change in net assets	(765,734)	50,344	50,724	(664,666)	38,740
Net assets, beginning of year	1,801,654	879,816	542,833	3,224,303	3,185,563
Net assets, end of year	\$ 1,035,920	\$ 930,160	\$ 593,557	\$ 2,559,637	\$ 3,224,303

See accompanying notes to the consolidated financial statements.

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Statement of Functional Expenses

Year ended June 30, 2008

(with summarized information for the year ended June 30, 2007)

(In thousands)

	Program Services						
	Services to the Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	Int'l Relief & Development Services	Total Program Services
Salaries and wages	\$ 30,867	\$ 926,251	\$ 51,780	\$ 111,299	\$ 112,410	\$ 21,085	\$ 1,253,692
Employee benefits	8,386	267,628	13,630	30,139	28,905	6,062	354,750
Subtotal	39,253	1,193,879	65,410	141,438	141,315	27,147	1,608,442
Travel and maintenance	1,325	32,888	2,738	31,252	3,992	4,019	76,214
Equipment maintenance and rental	1,142	68,459	6,203	16,639	5,358	1,490	99,291
Supplies and materials	1,881	519,002	15,314	13,162	37,156	1,660	588,175
Contractual services	11,149	315,448	20,332	78,891	38,988	19,565	484,373
Financial and material assistance	1,852	14,969	12,861	207,641	4,278	137,476	379,077
Depreciation and amortization	1,298	59,365	4,592	13,193	7,905	535	86,888
Total expenses	\$ 57,900	\$ 2,204,010	\$ 127,450	\$ 502,216	\$ 238,992	\$ 191,892	\$ 3,322,460

	Supporting Services				
	Fund Raising	Management and General	Total Supporting Services	Total Expenses	
				2008	2007
Salaries and wages	\$ 57,548	\$ 82,794	\$ 140,342	\$ 1,394,034	\$ 1,317,136
Employee benefits	15,200	23,161	38,361	393,111	371,951
Subtotal	72,748	105,955	178,703	1,787,145	1,689,087
Travel and maintenance	3,846	4,691	8,537	84,751	80,907
Equipment maintenance and rental	1,829	4,155	5,984	105,275	106,815
Supplies and materials	16,081	3,646	19,727	607,902	611,932
Contractual services	42,940	75,100	118,040	602,413	605,399
Financial and material assistance	3,411	2,353	5,764	384,841	261,485
Depreciation and amortization	2,570	22,577	25,147	112,035	95,669
Total expenses	\$ 143,425	\$ 218,477	\$ 361,902	\$ 3,684,362	\$ 3,451,294

See accompanying notes to the consolidated financial statements.

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Consolidated Statement of Cash Flows

Year ended June 30, 2008
(with comparative information for the year ended June 30, 2007)
(In thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (664,666)	\$ 38,740
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	112,032	95,669
Provision for doubtful accounts and contributions receivable	97	1,600
Provision for obsolete inventory	59	2,012
Net (gain) loss on sales of property	299	(33,980)
Net investment and derivative (gains) losses	96,559	(218,765)
Cumulative effect of accounting change	-	(126,852)
Pension-related changes other than net periodic cost	76,930	-
Permanently restricted contributions	(39,095)	(44,573)
Changes in operating assets and liabilities:		
Receivables	40,689	21,104
Inventories	(740)	(32,847)
Other assets	5,428	1,741
Accounts payable and accrued expenses	(28,349)	(46,415)
Other liabilities	13,381	2,938
Pension and postretirement benefits	21,647	23,724
Net cash used in operating activities	(365,729)	(315,904)
Cash flows from investing activities:		
Purchases of property	(76,882)	(176,897)
Proceeds from sales of property	6,956	75,312
Purchases of investments	(424,572)	(209,897)
Proceeds from sales of investments	721,482	308,826
Net cash provided by (used in) investing activities	226,984	(2,656)
Cash flows from financing activities:		
Permanently restricted contributions	34,231	43,851
Proceeds from borrowings	186,493	169,398
Repayments of debt	(72,422)	(111,022)
Net cash provided by financing activities	148,302	102,227
Net increase (decrease) in cash and cash equivalents	9,557	(216,333)
Cash and cash equivalents, beginning of year	211,240	427,573
Cash and cash equivalents, end of year	\$ 220,797	\$ 211,240
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 29,687	\$ 26,583
Noncash investing and financing transactions:		
Acquisition of equipment under capital lease agreements	312	212

See accompanying notes to the consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2008

(With summarized information for the year ended June 30, 2007)

(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, 2007, 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

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Notes to Consolidated Financial Statements

June 30, 2008

(With summarized information for the year ended June 30, 2007)

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 \$95 million and \$55 million as of June 30, 2008 and 2007, respectively.

Investments: Investments are reported at fair value. 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. 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 their fair value.

Fair Values of Financial Instruments: Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices or, in the case of alternative investments, at estimated values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods. 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. 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.

The estimated fair value of the Organization's noncurrent debt was as follows at June 30, 2008 and 2007 (in thousands):

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Noncurrent debt	\$ 347,632	\$ 347,999	\$ 353,338	\$ 352,671

The carrying value of all other financial instruments approximates fair value.

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Notes to Consolidated Financial Statements

June 30, 2008

(With summarized information for the year ended June 30, 2007)

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.

The Organization makes distributions from income earned on the endowment fund for current operations using the total return method. 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 4.75% for 2008 and 5% for 2007 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately \$29 million and \$27 million for the years ended June 30, 2008 and 2007, respectively. Approximately \$5 million and \$12 million of the amounts represent utilization of accumulated realized gains for the years ended June 30, 2008 and 2007, respectively.

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:

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

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June 30, 2008

(With summarized information for the year ended June 30, 2007)

Long-Lived Assets: In accordance with Financial Accounting Standards Board (FASB) Statement No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of 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 \$94 million and \$91 million at June 30, 2008 and 2007, 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.

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June 30, 2008

(With summarized information for the year ended June 30, 2007)

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, 2008 and 2007 of approximately \$12 million and \$13 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, 2008 and 2007, research and development expenses incurred by Biomedical Services was approximately \$7 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.

On July 1, 2007, the Organization adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on the Organization's statement of financial position or statement of activities. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

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. See note 11.

Pension Plans: Effective June 30, 2007, the Organization adopted the recognition and disclosure provisions of FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, (SFAS No. 158). This Statement requires plan sponsors to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through a change in unrestricted net assets, a part from expenses, to the extent those changes are not included in the net periodic costs. The funded status reported on the balance sheet as of June 30, 2007 under SFAS No. 158 was measured as the difference between the fair value of plan assets and the benefit obligation.

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(With summarized information for the year ended June 30, 2007)

Recently Issued Accounting Standards: In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, established a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The American National Red Cross was required to adopt SFAS No. 157 beginning on July 1, 2008. The adoption of SFAS No. 157 is not expected to have a material impact on the consolidated financial statements.

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

(2) **Recently Enacted Endowment Legislation**

Through June 30, 2007, the Organization's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the donor-restricted endowment fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective January 23, 2008, the District of Columbia enacted 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 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. Based on the Organization's interpretation of UPMIFA, the Organization reclassified approximately \$359 million from unrestricted net assets to temporarily restricted net assets for donor-restricted endowment funds that have not been appropriated for expenditure in the statement of activities as of July 1, 2007. Of this amount, approximately \$235 million was available for appropriation in the future by action of the Board of Governors. The remainder was held as an inflation reserve which the Board of Governors does not intend to appropriate in the future.

In August 2008, 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 (FSP)*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The FSP also requires expanded disclosures for all endowment funds. The Organization will adopt the FSP for the year ending June 30, 2009.

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June 30, 2008

(With summarized information for the year ended June 30, 2007)

(3) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Amount receivable within one year	\$ 96,960	\$ 96,080
Amount receivable in 1 to 5 years (net discount of \$4,888 and \$5,494 for 2008 and 2007, respectively)	<u>25,430</u>	<u>31,863</u>
Total contributions receivable before allowance for uncollectible amounts	122,390	127,943
Less allowance for uncollectible amounts	<u>(1,950)</u>	<u>(1,548)</u>
Contributions receivable, net	120,440	126,395
Less current portion	<u>(95,010)</u>	<u>(94,532)</u>
Contributions receivable, net, noncurrent	<u>\$ 25,430</u>	<u>\$ 31,863</u>

Amounts presented above have been discounted to present value using rates averaging approximately 3 percent. The Organization had commitments from donors for conditional contributions approximating \$3 million and \$4 million at June 30, 2008 and 2007, 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, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Land	\$ 104,273	\$ 103,661
Buildings and improvements	1,100,186	1,042,974
Equipment and software	806,449	750,735
Buildings and equipment under capital lease	<u>9,150</u>	<u>65,145</u>
Total cost of assets placed in service	2,020,058	1,962,515
Less accumulated depreciation and amortization	<u>(986,699)</u>	<u>(912,801)</u>
Construction-in-progress	<u>130,446</u>	<u>156,184</u>
Land, buildings, and other property, net	<u>\$ 1,163,805</u>	<u>\$ 1,205,898</u>

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(5) Debt

Debt consists of the following at June 30, 2008 and 2007 (in thousands):

	2008	2007
Borrowings on lines of credit, due in 2009 through 2010, bearing interest at an average rate of 4.6% in 2008 and 5.46% in 2007	\$ 235,000	\$ 115,000
Various notes, mortgages and bonds payable, bearing interest at rates ranging from 0.8% to 14% due 2009 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	366,946	370,343
Total bonds and notes payable	601,946	485,343
Obligations under capital leases (Note 6)	2,175	4,395
Total debt	604,121	489,738
Less current portion	(256,489)	(136,400)
Debt, noncurrent portion	\$ 347,632	\$ 353,338

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 \$271 million as of June 30, 2008 and 2007, 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, 2008 are as follows (in thousands):

Years ending June 30:

2009	\$ 256,489
2010	16,070
2011	35,685
2012	35,776
2013	34,939
Thereafter	225,162
Total	\$ 604,121

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Interest expense was approximately \$27 million and \$26 million for the years ended June 30, 2008 and 2007, respectively, which is included in contractual services on the statement of functional expenses.

During 2008, the Organization issued a tender notice and repurchased a portion of its outstanding Series 2005 auction rate bonds. The Organization borrowed \$40 million on an existing line of credit to repurchase the bonds which were then held by the Trustee and remained outstanding as of June 30, 2008. These bonds are no longer reflected in the statement of financial position.

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, 2008 and 2007, \$235 million and \$115 million respectively had been borrowed under lines of credit to support operations. The Organization had unused lines of credit outstanding of approximately \$185 million at June 30, 2008.

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 \$505 million and \$381 million at June 30, 2008 and 2007, 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, 2008 and 2007, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2008 through 2013, totaled \$107 million and \$47 million, respectively. At June 30, 2008 and 2007, the estimated fair value of the interest rate swap agreements was a liability of approximately \$1.3 million and \$0.7 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2008 and 2007.

The change in fair value on these interest rate swap agreements was a loss of approximately \$0.6 million and a gain of approximately \$0.3 million for the years ended June 30, 2008 and June 30, 2007, respectively, and is included as nonoperating gains/(losses) in the consolidated statement of activities.

Letters of Credit: The Organization had unused letters of credit outstanding of approximately \$66 million at June 30, 2008.

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(6) Leases

The Organization leases certain buildings and equipment for use in its operations. The following summarizes as of June 30, 2008, minimum future rental payments under capital and noncancelable operating leases for the fiscal years ending June 30 (in thousands):

	Operating	Capital
2009	\$ 36,646	\$ 873
2010	27,089	777
2011	21,609	474
2012	19,819	193
2013	14,525	64
Thereafter	12,854	13
Total minimum lease payments	\$ 132,542	\$ 2,394
Less amounts representing interest		(219)
Present value of net minimum lease payments (Note 5)		\$ 2,175

Total rent expense was approximately \$69 million for both years ended June 30, 2008 and 2007 and is included in contractual services on the statement of functional expenses.

(7) Net Assets

Unrestricted net assets consisted of the following at June 30, 2008 and 2007 (in thousands):

	2008	2007
Designated for the following purposes:		
Biomedical services	\$ 267,315	\$ 392,697
Endowment inflation adjustment reserve	—	124,900
Endowment distribution reserve	—	70,500
Funds functioning as endowment	142,847	250,943
Fund for retiree health care premium subsidies	111,729	121,263
Replacement and improvement of buildings and equipment	152,046	154,504
Contingencies and other purposes	145,219	191,796
Undesignated	216,764	495,051
Total unrestricted net assets	\$ 1,035,920	\$ 1,801,654

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Temporarily restricted net assets are available for the following purposes or periods at June 30, 2008 and 2007 (in thousands):

	2008	2007
Disaster services	\$ 105,498	\$ 132,982
Hurricanes Katrina, Rita & Wilma Disaster Relief	69,271	220,327
Liberty disaster relief – September 11 response	1,951	11,703
Biomedical services	10,273	9,119
Health and safety services	3,633	2,701
International services	59,043	32,576
Tsunami relief and recovery	176,118	298,167
Community services	10,764	11,570
Buildings and equipment	31,960	24,581
Endowment inflation adjustment reserve	148,228	—
Endowment assets available for future appropriation:		
Endowment distribution reserve	86,787	—
Accumulated net appreciation on endowment	90,270	—
Other specific purposes	42,101	43,734
Time restricted	94,263	92,356
Total temporarily restricted net assets	\$ 930,160	\$ 879,816

As discussed in Note 2, as a result of the enactment of UPMIFA, the Organization reclassified, as of July 1, 2007, approximately \$359 million of cumulative net gains on endowed investments from unrestricted to temporarily restricted net assets. This amount was comprised of approximately \$125 million designated by the Board of Governors as an inflation reserve to protect donor corpus. This reserve increases each year at a rate equal to 100 percent of the increase in the Consumer Price Index applied against the book value of the original donor corpus. In addition, \$71 million designated as a distribution reserve which will provide funds for operations in those years when net investment income is less than the approved distribution amount and \$164 million of accumulated net appreciation on investments of the endowment fund were also reclassified.

At June 30, 2008, approximately \$325 million of cumulative net gains on endowed investments were reported as temporarily restricted net assets, with approximately \$148 million included in the inflation reserve, approximately \$87 million in the distribution reserve and the remaining \$90 million consisting of accumulated net appreciation on investments of the endowment fund.

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 \$69 million will be devoted primarily to long-term recovery needs of the local communities in the wake of these storms.

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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, 2008 the Organization has provided approximately \$405 million towards immediate assistance and recovery efforts. The remaining net asset balance of approximately \$176 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, 2008 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 income for the years ended June 30, 2008 and 2007 (in thousands):

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

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	2007			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest	\$ 106,000	\$ 1,424	\$ —	\$ 107,424
Net operating investment gains	<u>27,274</u>	<u>965</u>	<u>—</u>	<u>28,239</u>
Investment income available for operations	133,274	2,389	—	135,663
Net nonoperating investment gains	<u>184,512</u>	<u>1,733</u>	<u>3,985</u>	<u>190,230</u>
Total return on investments, noncurrent	<u>\$ 317,786</u>	<u>\$ 4,122</u>	<u>\$ 3,985</u>	<u>\$ 325,893</u>

The fair value of investments was as follows at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
U.S. Government securities	\$ 173,276	\$ 397,860
Corporate bonds and notes	264,717	536,216
Common and preferred stocks	676,694	709,751
Mortgage and asset backed securities	180,290	82,086
Nonmarketable alternative funds	410,893	272,980
Money market and other	<u>439,359</u>	<u>539,274</u>
Total investments	2,145,229	2,538,167
Less current portion	<u>(835,495)</u>	<u>(1,088,021)</u>
Investments, noncurrent	<u>\$ 1,309,734</u>	<u>\$ 1,450,146</u>

As of June 30, 2008 and 2007, respectively, the Organization held approximately \$411 million and \$273 million of alternative investments for which the fair value has been estimated by the fund managers or general partners in the absence of readily ascertainable fair values as of that date. These investments 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, 2008. 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.

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(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 \$189 million in assets under these agreements, which are included in investments and other assets on the statement of financial position, \$46 million are charitable gift annuities and the remainder are assets for which the Organization is not the trustee. Liabilities associated with these agreements are \$20 million, of which \$4 million is included with other current liabilities and \$16 million is included with other noncurrent liabilities on the statement of financial position.

(10) Benefit Plans

Pension and Postretirement Plans: Employees of the American National 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 employee's 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 2008 and 2007, the Organization contributed 4.25 percent of covered payroll to the Retirement System.

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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, 2008 and 2007:

	Pension Assets	
	2008	2007
Cash and short-term investments	5%	3%
Domestic equity	25%	38%
International equity	18%	23%
Fixed income deflation hedge	20%	18%
Inflation hedge	12%	5%
Nonmarketable alternative funds	20%	13%
	<u>100%</u>	<u>100%</u>

The Plan assets were within authorized asset allocation ranges at June 30, 2008 and 2007.

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 American National Red Cross postretirement benefit plans are unfunded. However, as shown in Note 7, the Board of Governors has designated \$112 million of unrestricted net assets to fund a portion of premiums for retirees' postretirement medical benefits.

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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, 2008 and 2007 (in thousands):

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Changes in benefit obligations:				
Benefit obligations at beginning of year	\$ 1,813,531	\$ 1,688,462	\$ 234,009	\$ 214,436
Service cost	49,606	47,628	13,712	12,986
Interest cost	114,502	106,786	14,421	13,217
Actuarial (gain) loss	(108,882)	23,039	(31,824)	416
Benefits paid	(57,537)	(52,384)	(5,852)	(7,046)
Benefit obligations at end of year	1,811,220	1,813,531	224,466	234,009
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,812,918	1,529,776	—	—
Actual return on plan assets	(101,213)	289,960	—	—
Employer contributions	48,319	45,566	—	—
Benefits paid	(57,537)	(52,384)	—	—
Fair value of plan assets at end of year	1,702,487	1,812,918	—	—
Funded status/accrued accrued benefit costs	\$ (108,733)	\$ (613)	\$ (224,466)	\$ (234,009)

In September 2006, the FASB issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, (SFAS No. 158) which amends SFAS No. 87 *Employers' Accounting for Pensions* (SFAS No. 87) and SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106). This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. The Organization adopted the recognition of the funded status provisions of SFAS No. 158 at June 30, 2007. The effect of adoption of SFAS No. 158 was an increase in net assets of \$127 million at June 30, 2007.

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Pension related changes other than net periodic cost under SFAS No. 158:

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

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

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

Estimated amounts to be amortized into net periodic benefit cost over the next fiscal year relate to prior service costs and are \$1.9 million and \$1.2 million for the pension plan and postretirement benefits plan, respectively.

The accumulated benefit obligation for the pension plan was approximately \$1.7 billion and \$1.6 billion as of June 30, 2008 and 2007, respectively.

The weighted average assumptions used to determine benefit obligations for 2008 and 2007 were as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
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%	—	—

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The weighted average assumptions used to determine net benefit cost for 2008 and 2007 were as follows:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Discount rate	6.25%	6.25%	6.25%	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 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 at that level thereafter.

The components of net periodic benefit cost for the years ended June 30, 2008 and 2007 were (in thousands):

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Service cost	\$ 49,606	\$ 47,628	\$ 13,712	\$ 12,986
Interest cost	114,502	106,786	14,421	13,217
Expected return on plan assets	(117,290)	(105,148)	—	—
Amortization of prior service cost	2,083	2,083	(1,216)	(1,216)
Net periodic benefit cost	\$ 48,901	\$ 51,349	\$ 26,917	\$ 24,987

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	\$ 369	\$ (287)
Effect on postretirement benefit obligation	1,893	(1,512)

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The Organization expects to contribute approximately \$51 million to its pension plan and \$7 million to its postretirement benefit plan during the year ended June 30, 2009.

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
2009	\$ 70,127	\$ 6,671
2010	78,941	7,122
2011	88,175	7,635
2012	97,517	8,235
2013	107,321	8,915
2014 – 2018	676,940	63,921
	\$ 1,119,021	\$ 102,499

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 on or before June 30, 2005; 3 years if hired on or after July 1, 2005. The American National Red Cross matches 100 percent of the first 4 percent of annual compensation contributed by the participant. For the 2007 calendar year, contribution limits were based on a maximum annual compensation of \$225,000. There are 19 investment options that an employee can choose from as well as a self-managed brokerage account. The Organization contributed approximately \$31 million and \$30 million to the Savings Plan for fiscal years 2008 and 2007, 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, the securitized receivable amount was increased to \$150 million under the third amendment to the program. The eligible receivables are sold under the third amendment to the program, 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, 2008, the outstanding balance of securitized accounts receivable held by the third party conduit was approximately \$155 million of which the Organization's subordinated retained interest was approximately \$14 million. Accordingly, \$141 million and \$120 million of accounts receivable balances, net of applicable allowances, were removed from the statement of financial position as of June 30, 2008 and 2007, respectively. Expenses associated with the program totaled approximately \$7 million and \$6 million in the years ended June 30, 2008 and 2007, respectively.

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

(12) Joint Costs

For the years ended June 30, 2008 and 2007, the Organization incurred joint costs of approximately \$4 million and \$4.1 million, respectively, for informational materials and activities that included fund raising appeals. Of those costs, \$2.2 million and \$2.5 million was allocated to fund raising, \$0.7 million and \$0.5 million to disaster services, \$0.7 million and \$0.6 million to health and safety services, and \$0.4 million and \$0.5 million to other services for the years ending June 30, 2008 and 2007, respectively.

(13) Commitments and Contingencies

Litigation: The Organization is a defendant in a number of other 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.

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(14) Subsequent Events

Federal Appropriation: On September 30, 2008, the President signed into law an appropriation not to exceed \$100 million to remain available until September 30, 2009 to reimburse the Organization for disaster relief and recovery expenditures and emergency services provided in the U.S. associated with hurricanes, floods, and other natural disasters occurring during calendar year 2008 for which the President of the U.S. has declared a major disaster under title IV of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The appropriation will be used to reimburse the Organization for services provided until September 30, 2009 associated with Presidentially declared hurricanes, floods, and other natural disasters that occurred during calendar year 2008.

Investments: Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the Organization's investments subsequent to June 30, 2008. Based on information available from fund managers, the Organization estimates that the value of the investments as of September 30, 2008 has declined approximately \$190 million compared to the value as of June 30, 2008.