

American Red Cross FY11 Financial Results **A message from the Chief Financial Officer**

The American Red Cross ended its fiscal year 2011 with net assets of \$2.2 billion, posting total operating revenues of \$3.5 billion and total operating expenses of \$3.4 billion. Behind these indicators of size and activity are several key numbers that help explain the organization's positive trajectory.

\$71 million: Red Cross operating surplus.

Red Cross day-to-day operating revenues and expenses are captured by the \$71 million surplus figure. Previously, facing an operating deficit in FY08 of \$209 million, we improved to a \$33.5 million deficit in FY09, and had ended FY10 with a modest operating surplus of \$47 million. The \$71 million operating surplus for our fiscal year ending June 30, 2011, reflects outstanding fundraising support toward the end of FY11 in response to spring tornadoes and floods; better than planned oversight of our management and health benefit expenses; a surplus of \$69 million in revenues over expenses related to Biomedical Services, which will be applied toward revitalizing their IT systems; and an overall increase in efficiencies and centralization.

\$31 million: Change in net assets from operations as reported on Red Cross audited financial statements. The \$71 million management calculation focuses on core ongoing revenues and expenses. It segregates daily operations from the spend-down of specific episodic disaster relief operations, one-time events and/or market value adjustments. These types of activities are part of an audited statement, but are managed separately.

Note: Financial statements for the Red Cross are reported according to GAAP accounting rules, which do not completely reflect the daily business operations of the organization. The difference between the \$71 million operating surplus and \$31 million operating surplus per financial statements are the one-time expenditures on international and domestic relief funded by contributions in the previous year and a one-time investment in a biomedical IT system called BioArch, offset by a positive pension/post-retirement benefits change.

\$233 million: Change in net assets as reported on Red Cross audited financial statements.

The \$233 million total change in net assets mostly reflects additional non-operating investment gains from our endowment and chapter reserves as of June 30, 2011.

\$573 million: Red Cross debt.

In FY11, the Red Cross continued making strides toward reducing our total debt, which was \$573 million, compared to \$592 million in FY10. The Red Cross has also taken additional steps toward reducing the debt risk to the organization. We have restructured more of our debt to make it less vulnerable to short-term volatility of interest rates. However, we must maintain a breakeven budget performance in order for the organization to prudently pay off this debt in future years. The Red Cross debt-to-net-asset ratio of 26 percent (debt: \$573 million; net assets: \$2,192 million) is a four percentage-point improvement over FY10 and falls well within the covenants we have negotiated with our bankers, who have encouraged our financial management strategy.

Our audited results show that the Red Cross is making progress toward financial stability. We are well on the way to institutionalizing a Red Cross-wide culture of financial efficiency that has significantly cut back-office costs out of our chapters, biomedical units and national headquarters. Lasting financial stability will only come if we continue doing all of these things and sustainably grow our revenues.

Looking ahead, we're not managing a single fiscal year; we're building a progression toward long-term financial sustainability, fueled by growing revenues supporting needed, cost-effective and lifesaving services.

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-2012-0014-FFR

2 November 2011

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 2011. In the auditor's opinion, the American Red Cross statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

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

The Act of Congress that incorporates the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and AR 930-5 (American National Red Cross Service Program and Army Utilization), requires U.S. Army Audit Agency to perform an annual audit of the consolidated financial statements of the American Red Cross. The American Red Cross contracted with the certified public accounting firm of KPMG LLP as the principal auditor to perform a financial audit of its 2011 consolidated financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and best use our available resources, we reviewed the principal auditor's work and reports.

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

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

In the opinion of KPMG LLP, the consolidated financial statements present fairly, in all material respects, the financial position of the American Red Cross, as of 30 June 2011, and the changes in its net assets and cash flow and its functional expenses 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 2011 consolidated financial statements is inappropriate or cannot be relied upon.

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

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


RANDALL L. EXLEY, CPA
The Auditor General



THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Governors
The American National Red Cross:

We have audited the accompanying consolidated statement of financial position of The American National Red Cross (the Organization) as of June 30, 2011, 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's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 consolidated financial statements and, in our report dated October 13, 2010, 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 Organization's 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, 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, 2011, and the changes in their net assets, their cash flows and their functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 11 to the consolidated financial statements, the Organization changed its method of accounting for its receivables securitization program due to the adoption of Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*, as of July 1, 2010.

KPMG LLP

October 26, 2011

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2011
(with comparative information as of June 30, 2010)
(In thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 372,662	\$ 407,204
Investments (Note 8)	695,856	798,060
Trade receivables, including grants, net of allowance for doubtful accounts of \$3,818 in 2011 and \$3,713 in 2010 (Note 11)	222,430	81,473
Contributions receivable (Note 3)	66,977	75,955
Inventories, net of allowance for obsolescence of \$1,382 in 2011 and \$2,217 in 2010	126,382	129,756
Collateral held under securities loaned agreements (Note 8)	110,943	137,749
Other current assets	28,901	16,068
Total current assets	1,624,151	1,646,265
Investments (Note 8)	1,309,580	1,076,601
Contributions receivable (Note 3)	14,134	23,944
Land, buildings, and other property, net (Note 4)	1,077,945	1,090,532
Other assets (Note 9)	227,771	161,769
Total assets	4,253,581	3,999,111
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	333,223	371,044
Current portion of debt (Note 5)	14,418	39,812
Postretirement benefits (Note 10)	4,147	4,616
Payables under securities loaned agreements (Note 8)	110,943	137,749
Other current liabilities (Notes 9 and 11)	185,134	26,165
Total current liabilities	647,865	579,386
Debt (Note 5)	558,963	552,245
Pension and postretirement benefits (Note 10)	667,987	757,676
Other liabilities (Notes 5 and 9)	186,843	150,917
Total liabilities	2,061,658	2,040,224
Net assets (Notes 2 and 7):		
Unrestricted net assets	655,029	448,142
Temporarily restricted net assets	871,126	884,910
Permanently restricted net assets	665,768	625,835
Total net assets	2,191,923	1,958,887
Commitments and contingencies (Notes 5, 6, 10, 11, and 13)		
Total liabilities and net assets	\$ 4,253,581	\$ 3,999,111

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2011

(with summarized information for the year ended June 30, 2010)

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2011	2010
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	\$ 227,442	\$ 458,505	\$ -	\$ 685,947	\$ 813,928
United Way and other federated	36,203	75,070	-	111,273	119,825
Legacies and bequests	51,453	8,063	22,032	81,548	92,496
Services and materials	15,174	20,098	-	35,272	34,888
Products and services:					
Biomedical	2,189,663	-	-	2,189,663	2,200,550
Program materials	139,177	45	-	139,222	145,326
Contracts, including federal government	112,804	-	-	112,804	89,282
Investment income (Note 8)	19,339	30,245	-	49,584	48,595
Other revenues	64,429	793	-	65,222	59,545
Net assets released from restrictions	704,812	(704,812)	-	-	-
Total operating revenues and gains	3,560,496	(111,993)	22,032	3,470,535	3,604,435
Operating expenses:					
Program services:					
Services to the Armed Forces	57,403	-	-	57,403	65,300
Biomedical services (Note 12)	2,195,108	-	-	2,195,108	2,194,789
Community services	90,558	-	-	90,558	105,278
Domestic disaster services	282,974	-	-	282,974	268,864
Health and safety services	203,735	-	-	203,735	216,946
International relief and development services	340,106	-	-	340,106	250,993
Total program services	3,169,884	-	-	3,169,884	3,102,170
Supporting services:					
Fund raising	127,019	-	-	127,019	130,193
Management and general	142,682	-	-	142,682	138,472
Total supporting services	269,701	-	-	269,701	268,665
Total operating expenses	3,439,585	-	-	3,439,585	3,370,835
Change in net assets from operations	120,911	(111,993)	22,032	30,950	233,600
Nonoperating gains, net (Notes 5 and 8)	77,047	98,209	17,901	193,157	138,497
Pension-related changes other than net periodic benefit cost (Note 10)	8,929	-	-	8,929	(85,676)
Change in net assets	206,887	(13,784)	39,933	233,036	286,421
Net assets, beginning of year	448,142	884,910	625,835	1,958,887	1,672,466
Net assets, end of year	\$ 655,029	\$ 871,126	\$ 665,768	\$ 2,191,923	\$ 1,958,887

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Statement of Functional Expenses

Year ended June 30, 2011
 (with summarized information for the year ended June 30, 2010)
 (In thousands)

	Program Services							Total Program Services
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief and Development Services		
Salaries and wages	\$ 28,458	\$ 953,893	\$ 35,974	\$ 86,877	\$ 96,164	\$ 19,422	\$ 1,220,788	
Employee benefits	7,284	244,152	9,208	22,236	24,613	4,971	312,464	
Subtotal	35,742	1,198,045	45,182	109,113	120,777	24,393	1,533,252	
Travel	1,708	30,591	1,601	15,778	2,716	2,636	55,030	
Equipment maintenance and rental	1,312	74,484	3,647	9,810	4,415	1,549	95,217	
Supplies and materials	5,201	507,409	11,775	8,395	24,882	1,374	559,036	
Contractual services	9,315	334,496	12,429	50,324	39,114	8,696	454,374	
Financial and material assistance	2,646	1,028	12,756	78,753	4,363	300,552	400,098	
Depreciation and amortization	1,479	49,055	3,168	10,801	7,468	906	72,877	
Total expenses	\$ 57,403	\$ 2,195,108	\$ 90,558	\$ 282,974	\$ 203,735	\$ 340,106	\$ 3,169,884	

	Supporting Services			Total Expenses	
	Fund Raising	Management and General	Total Supporting Services	2011	2010
Salaries and wages	\$ 60,225	\$ 71,591	\$ 131,816	\$ 1,352,604	\$ 1,379,677
Employee benefits	15,415	18,324	33,739	346,203	342,179
Subtotal	75,640	89,915	165,555	1,698,807	1,721,856
Travel	3,644	3,124	6,768	61,798	53,795
Equipment maintenance and rental	1,977	2,907	4,884	100,101	93,817
Supplies and materials	9,792	4,452	14,244	573,280	605,747
Contractual services	30,354	33,318	63,672	518,046	535,275
Financial and material assistance	2,199	1,925	4,124	404,222	270,952
Depreciation and amortization	3,413	7,041	10,454	83,331	89,393
Total expenses	\$ 127,019	\$ 142,682	\$ 269,701	\$ 3,439,585	\$ 3,370,835

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2011
(with comparative information for the year ended June 30, 2010)
(In thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 233,036	\$ 286,421
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	83,331	89,393
Provision for doubtful accounts receivable	1,252	4,732
Provision (recovery) for obsolete inventory	(495)	5,024
Net (gain) loss on sales of property	(2,699)	12,926
Net investment and derivative gains	(192,075)	(124,733)
Pension related changes other than net periodic benefit costs	(8,929)	85,676
Permanently restricted contributions	(22,032)	(27,121)
Changes in operating assets and liabilities:		
Receivables	(123,257)	43,745
Inventories	3,869	15,116
Other assets	(78,999)	7,624
Accounts payable and accrued expenses	(37,821)	47,454
Other liabilities	192,930	(2,316)
Pension and postretirement benefits	(81,229)	(52,398)
Net cash (used in) provided by operating activities	(33,118)	391,543
Cash flows from investing activities:		
Purchases of property	(74,452)	(55,605)
Proceeds from sales of property	6,407	6,451
Purchases of investments	(158,583)	(467,655)
Proceeds from sales of investments	222,948	312,013
Net cash used in investing activities	(3,680)	(204,796)
Cash flows from financing activities:		
Permanently restricted contributions	20,932	27,087
Proceeds from borrowings	20,109	225,646
Repayments of debt	(38,785)	(246,882)
Net cash provided by financing activities	2,256	5,851
Net (decrease) increase in cash and cash equivalents	(34,542)	192,598
Cash and cash equivalents, beginning of year	407,204	214,606
Cash and cash equivalents, end of year	\$ 372,662	\$ 407,204
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 21,342	\$ 19,439
Noncash investing and financing transactions:		
Donated stock and beneficial interest in perpetual trust	1,499	223

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

(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, 2010, 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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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 original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and overnight investments of approximately \$219 million and \$230 million as of June 30, 2011 and 2010, respectively.

Investments: Investments are reported at fair value except for certain commingled funds and alternative funds that, as a practical expedient, and in accordance with ASC 820-10-35-59, are reported at estimated fair value utilizing net asset values. Net asset value, in many instances may not equal fair value that would be calculated pursuant to ASC 820. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2011. The Organization reviews and evaluates the net asset values provided by the general partners and fund managers and agrees with the valuation methods and assumptions used in determining net asset values of these funds. The separately managed endowment fund accumulates realized gains and losses on security transactions, which are available to meet current expenses to the extent approved by the Board of Governors. Amounts annually available for expenditure are based on the Board of Governors' approved spending rate using 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 in order to create certain exposures or mitigate certain risks. Derivative financial instruments are recorded at fair value.

Fair Values of Financial Instruments: Investments are reported at fair value or estimated fair value (note 8). For fair value disclosure purposes, debt is valued at rates currently available to the Organization for issuances with similar terms and remaining maturities. Interest rate swap agreements on debt 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, 2011 and 2010 (in thousands):

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Noncurrent debt	\$ 558,963	582,467	552,245	574,169

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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

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

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

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

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

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

Long-Lived Assets: Long-lived assets, such as property, plant, and equipment, 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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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 \$117 million and \$110 million as of June 30, 2011 and 2010, 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 shipment of the product or delivery of the services to the customer.

Revenues from federal agencies are generally reported as unrestricted contract revenue and are recognized 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 nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Organization recorded contributed services revenue and related expense for the years ended June 30, 2011 and 2010 of approximately \$11 million and \$4 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.

Income Taxes: The American National Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. For the years ended June 30, 2011 and 2010, 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. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

Accounts Receivable Securitization: The Organization has an accounts receivable securitization program that is accounted under the newly adopted Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* (note 11).

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

Recently Issued Accounting Standards: In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06 which provides amendments to ASC 820. The amendments in this ASU require additional disclosures regarding fair value measurements. ASU 2010-06 requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 clarified existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The ASU is effective for the Organization for the year ended June 30, 2011, except the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 rollforward that becomes effective for fiscal years beginning after December 15, 2010. The adoption of this ASU did not cause material changes to the disclosure in the 2011 financial statements. However, the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 rollforward that becomes effective for fiscal years beginning after December 15, 2010 is expected to affect the disclosures in the Organization's financial statements beginning with fiscal year 2012.

Also amending ASC 820, in May 2011 the FASB issued ASU 2011-04 which will require entities to change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements related to the application of the highest and best use and valuation premise concepts for financial and nonfinancial instruments, measuring the fair value of an instrument classified in shareholder's equity, and disclosures about fair value measurements. ASU 2011-04 changes the measurement of the fair value of financial instruments that are managed within a portfolio and the application of premiums and discounts in a fair value measurement related to size as a characteristic of the reporting entity's holding rather than a characteristic of the asset or liability. ASU 2011-04 requires additional disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy including the valuation processes used by the reporting entity, the sensitivity of the fair value to changes in unobservable inputs, and the interrelationships between those unobservable inputs, if any. All the amendments to ASC 820 made by ASU 2011-04 are effective for periods beginning after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a material impact on the financial statements, except it will enhance the disclosures around fair value of investments.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

(2) Endowments

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Organization is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

To satisfy its long term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Organization makes distributions from income earned on the endowment fund for current operations using the total return method. In establishing this method, the Organization considered the long-term expected return on its funds. Under the total return method, distributions consist of net investment income and may, under certain conditions, include a portion of the cumulative realized and unrealized gains. The Board of Governors approves the spending rate, calculated as a percentage of the five-year calendar trailing average fair value of the endowment fund at the beginning of each fiscal year.

A spending rate of approximately 3.8 percent for both 2011 and 2010 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately \$30 million and \$28 million for the years ended June 30, 2011 and 2010, respectively. Approximately \$20 million and \$14 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2011 and 2010, respectively. A spending rate of approximately 3.8 percent of the trailing five-year market value has been approved for 2012.

Net asset classification by type of endowment as of June 30, 2011, is as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	309,872	520,542	830,414

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

Changes in endowment net assets for the year ended June 30, 2011 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	215,313	500,275	715,588
Investment return:				
Investment income	—	29,567	—	29,567
Net appreciation (realized and unrealized gains and losses)	—	94,678	—	94,678
Total investment return	—	124,245	—	124,245
Contributions			20,267	20,267
Appropriation of endowment assets for expenditure	—	(29,686)	—	(29,686)
	\$ <u>—</u>	<u>309,872</u>	<u>520,542</u>	<u>830,414</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>—</u>	<u>215,313</u>	<u>500,275</u>	<u>715,588</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	167,459	478,349	645,808
Investment return:				
Investment income	—	28,135	—	28,135
Net appreciation (realized and unrealized gains and losses)	—	47,969	—	47,969
Total investment return	—	76,104	—	76,104
Contributions	—	—	21,926	21,926
Appropriation of endowment assets for expenditure	—	(28,250)	—	(28,250)
	\$ —	215,313	500,275	715,588

(3) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Amounts receivable within one year	\$ 68,640	77,556
Amounts receivable in 1 to 5 years (net of discount of \$1,720 and \$3,044 for 2011 and 2010, respectively)	14,134	23,944
Total contributions receivable before allowance for uncollectible amounts	82,774	101,500
Less allowance for uncollectible amounts	(1,663)	(1,601)
Contributions receivable, net	81,111	99,899
Less current portion	66,977	75,955
Contributions receivable, net, noncurrent	\$ 14,134	23,944

Amounts presented above have been discounted to present value using various discount rates between 1.13 and 5.15 percent.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

(4) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Land	\$ 120,320	119,362
Buildings and improvements	1,166,873	1,151,207
Equipment and software	618,003	623,811
Buildings and equipment under capital lease	<u>4,850</u>	<u>6,951</u>
Total cost of assets placed in service	1,910,046	1,901,331
Less accumulated depreciation and amortization	(935,582)	(894,582)
Construction-in-progress	<u>103,481</u>	<u>83,783</u>
Land, buildings, and other property, net	<u>\$ 1,077,945</u>	<u>1,090,532</u>

(5) Debt

Debt consists of the following at June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Fixed rate debt:		
Bearing interest rates ranging from 3.5% to 5.85%, due in 2012 through 2036	\$ 299,309	305,540
Variable rate debt:		
Bearing interest rates ranging from 0.04% to 1.37%, due in 2012 through 2034		
Variable rate debt with demand repayment rights	206,738	216,707
Variable rate debt without demand repayment rights	<u>66,773</u>	<u>69,048</u>
Total bonds and notes payable	572,820	591,295
Obligations under capital leases (note 6)	<u>561</u>	<u>762</u>
Total debt	573,381	592,057
Less current portion	<u>14,418</u>	<u>39,812</u>
Debt, noncurrent portion	<u>\$ 558,963</u>	<u>552,245</u>

The Organization's debt is generally backed only by the full faith and credit of The American National Red Cross. Certain bonds are subject to redemption prior to the maturity at the option of the Organization. The repayment terms of the variable rate debt generally require monthly payments of interest and annual principal reduction. The registered owners of the bonds and notes with demand repayment rights may demand repurchase of the bonds and notes for an amount equal to the principal plus accrued interest. Letters of credit or standby credit facilities have been established with multiple banks in the aggregate amount of \$220 million and \$240 million as of June 30, 2011 and 2010, respectively, to provide liquidity

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

in the event other funding is not available for repurchasing. The maturity dates for these liquidity facilities are from 2014 through 2016 as of June 30, 2011. Approximately \$93.5 million of the debt with demand repayment rights bears interest at flexible rates with flexible rate periods of any duration up to 270 days. The rest of the debt with demand repayment rights is remarketed on a weekly basis bearing interest rates that are reset weekly.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2011 are as follows (in thousands):

2012	\$	14,420
2013		15,947
2014		19,480
2015		18,854
2016		17,609
Thereafter		<u>487,071</u>
Total	\$	<u><u>573,381</u></u>

Interest expense was approximately \$27 million and \$24 million for the years ended June 30, 2011 and 2010, respectively, which is included in contractual services on the statement of functional expenses.

Bank Lines of Credit: The Organization maintained several committed and uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2011 and 2010, there were no borrowings outstanding under lines of credit. The Organization had unused lines of credit outstanding of approximately \$395 million and \$420 million at June 30, 2011 and 2010, respectively. The amounts available to be borrowed on the lines of credit are subject to the limitations of the Organization's debt covenants.

Interest Rate Swap Agreements: The Organization held variable rate debt of approximately \$274 million and \$286 million at June 30, 2011 and 2010, respectively. Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. The interest rate swap agreements are derivative instruments that are required to be marked to fair value and recorded on the statement of financial position. At June 30, 2011, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2012 through 2021, totaled \$120.5 million. At June 30, 2010, the aggregate notional principal amount under the interest rate agreements, with maturity dates ranging from 2011 through 2013, totaled \$60 million. The estimated fair value of the interest rate swap agreements was a liability of approximately \$5.1 million and \$3.2 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2011 and 2010.

The change in fair value on these interest rate swap agreements was a loss of approximately \$2 million and \$0.5 million for the years ended June 30, 2011 and 2010, respectively, and is included in nonoperating gains in the consolidated statement of activities.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

The following table represents the interest rate swap liabilities that is measured at fair value on a recurring basis at June 30, 2011 and 2010 (in thousands):

	Fair value measurements		
	Level 1	Level 2	Level 3
Interest rate swap liabilities at June 30, 2011	\$ —	5,138	—
Interest rate swap liabilities at June 30, 2010	\$ —	3,173	—

For the valuation of the interest rate swap at June 30, 2011 and 2010, the Organization used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Organization. See note 8 for definitions of Levels 1, 2 and 3.

Letters of Credit: The Organization had unused letters of credit outstanding of approximately \$53 million and \$60 million at June 30, 2011 and 2010, respectively.

(6) Leases

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

	Operating	Capital
2012	\$ 32,243	295
2013	25,710	143
2014	17,148	93
2015	12,855	72
2016	8,894	7
Thereafter	19,954	13
Total minimum lease payments	\$ 116,804	623
Less amounts representing interest		(62)
Present value of net minimum lease payments (note 5)		\$ 561

Total rent expense was approximately \$51 million and \$54 million for the years ended June 30, 2011 and 2010, respectively and is included in contractual services on the consolidated statement of functional expenses.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2011, are as follows (in thousands):

2012	\$	11,657
2013		11,796
2014		11,936
2015		12,086
2016		12,238
Thereafter		<u>50,560</u>
Total minimum lease payments to be received		\$ <u><u>110,273</u></u>

Total rental income was approximately \$11.2 million and \$8.8 million for the years ended June 30, 2011 and 2010, respectively, and is included in other revenues on the consolidated statement of activities.

(7) Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Disaster services	\$ 24,712	97,699
Biomedical services	7,190	8,439
Health and safety services	4,031	2,582
International relief and development services	407,276	425,374
Community services	5,718	9,243
Buildings and equipment	11,084	15,635
Endowment inflation adjustment reserve	166,801	146,989
Endowment assets available for future appropriation	143,071	68,324
Other specific purposes	24,369	24,694
Time restricted	<u>76,874</u>	<u>85,931</u>
Total temporarily restricted net assets	\$ <u><u>871,126</u></u>	<u><u>884,910</u></u>

Permanently restricted net assets at June 30, 2011 and 2010 consist primarily of endowed contributions, the income from which is available principally to fund general operations. Other permanently restricted net assets consist of beneficial interests in perpetual trusts and other split interest agreements (note 9).

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

(8) Investments and Fair Value Measurements

The Organization applies the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. The three levels of the fair value hierarchy are as follows:

- Level 1- Quoted prices for identical assets or liabilities in active markets.
- Level 2- Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market – corroborated inputs.
- Level 3- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. .

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement. Investments measured using net asset value are considered Level 2 if they are redeemable at or near year-end otherwise they are considered Level 3.

The Organization'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 AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2011 and 2010 (in thousands):

	June 30, 2011	Level 1	Level 2	Level 3
U.S. government securities	\$ 132,859	26,194	106,665	—
Corporate and foreign sovereign bonds and notes	256,191	21,138	235,053	—
Common and preferred stocks	417,959	226,214	191,745	—
Mortgage-backed assets	92,720	—	92,720	—
Other asset-backed assets	2,453	—	2,100	353
Fund of hedge funds	74,419	—	—	74,419
Global macro hedge funds	29,168	—	—	29,168
Hedged equity funds	159,470	—	—	159,470
Multistrategy and other hedge funds	64,135	—	—	64,135
Buyout and growth equity funds	99,985	—	—	99,985
Distressed debt and turnaround funds	44,190	—	—	44,190
Private real estate funds	26,943	—	—	26,943
Venture capital funds	15,634	—	—	15,634
Commodity sensitive private equity and infrastructure funds	27,280	—	—	27,280
Commodities	22,503	—	22,503	—
Swap contracts	43	—	43	—
Money market and other	539,484	13,199	526,285	—
Total investments	\$ 2,005,436	286,745	1,177,114	541,577

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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

For the valuation of certain government, corporate and foreign sovereign bonds and notes, common and preferred stocks at June 30, 2011 and 2010, 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 and foreign sovereign bonds and notes, which includes commingled funds, common and preferred stocks, which includes commingled funds, mortgage and other asset-backed securities and commodities at June 30, 2011 and 2010, 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 hedge funds, buyout and growth equity funds, distressed debt and turnaround funds, private real estate funds, venture capital funds, commodity sensitive private equity and infrastructure funds, and certain asset backed securities at June 30, 2011 and marketable and nonmarketable alternative funds at June 30, 2010, the Organization used significant unobservable inputs including information from fund managers or general partners based on quoted market prices, if available, discounted cash flow analysis, comparables analysis, or third party appraisals (Level 3). Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

The following table presents the Organization's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the year ended June 30, 2011 (in thousands):

	<u>Other asset-backed assets</u>	<u>Fund of hedge funds</u>	<u>Global macro hedge funds</u>	<u>Hedged equity funds</u>	<u>Multistrategy and other hedge funds</u>	<u>Buyout and growth equity funds</u>
Balance at June 30, 2010	\$ 904	73,995	21,831	141,021	64,945	77,979
Total realized and unrealized gains	497	8,424	3,100	39,712	5,703	16,044
Purchases, issuance, and settlements, net	<u>(1,048)</u>	<u>(8,000)</u>	<u>4,237</u>	<u>(21,263)</u>	<u>(6,513)</u>	<u>5,962</u>
Balance at June 30, 2011	<u>\$ 353</u>	<u>74,419</u>	<u>29,168</u>	<u>159,470</u>	<u>64,135</u>	<u>99,985</u>
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2011	<u>\$ 493</u>	<u>6,988</u>	<u>3,099</u>	<u>5,438</u>	<u>3,479</u>	<u>9,291</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

	<u>Distressed debt and turnaround funds</u>	<u>Private real estate funds</u>	<u>Venture capital funds</u>	<u>Commodity sensitive private equity and infrastructure funds</u>	<u>Total</u>
Balance at June 30, 2010	\$ 40,087	20,024	14,128	21,385	476,299
Total realized and unrealized gains	5,053	2,801	2,613	5,143	89,090
Purchases, issuance, and settlements, net	(950)	4,118	(1,107)	752	(23,812)
Balance at June 30, 2011	<u>\$ 44,190</u>	<u>26,943</u>	<u>15,634</u>	<u>27,280</u>	<u>541,577</u>
Total gains for the period included in income attributable to the change in unrealized gains at June 30, 2011	<u>\$ 4,643</u>	<u>2,781</u>	<u>1,075</u>	<u>3,887</u>	<u>41,174</u>

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of June 30, 2011 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fund of hedge funds (a)	\$ 74,419	—	annually, tri-annually	100 days
Global macro hedge funds (b)	29,168	—	monthly, quarterly, annually	5- 60 days
Hedged equity funds (c)	159,470	—	monthly, quarterly, annually	14- 90 days
Multistrategy and other hedge funds (d)	64,135	—	monthly, quarterly, annually, bi-annually, tri- annually	7- 90 days
Buyout and growth equity funds (e)	99,985	54,839	None	—
Distressed debt and turnaround funds (f)	44,190	11,461	None	—
Private real estate funds (g)	26,943	16,489	None	—
Venture capital funds (h)	15,634	7,336	None	—
Commodity sensitive private equity and infrastructure funds (i)	27,280	17,143	None	—
Public equity commingled funds (j)	150,316	—	weekly, monthly	1- 30 days
Fixed income commingled funds (k)	232,927	—	weekly, monthly	1- 30 days
Total	<u>\$ 924,467</u>	<u>107,268</u>		

(a) The strategies of the underlying hedge funds in this category primarily include hedged equity, multistrategy, relative value, event driven and arbitrage strategies. While this is a single fund of funds, the Organization is invested in multiple share classes.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

(b) The funds in this category invest primarily in liquid instruments such as fixed income, currency, commodities, equities, and derivatives. The funds include short positions, long positions, and may use leverage. Two funds have legacy investments that have been segregated into illiquid vehicles – the value of these vehicles make up a minimal amount of the value of the investments in this category. The time at which these segregated investments will be liquidated is unknown.

(c) This category is invested in hedge funds that invest primarily in U.S. and international equities as well as derivatives. The funds include short positions, and long positions, and may use leverage. Some funds may invest in illiquid investments, which are typically segregated into "side pockets" (a separate share class) and are not available for redemption until the investment is liquidated by the manager. The time at which the investments in side pockets will be liquidated is unknown.

(d) The strategies of the funds in this category include relative value, event driven, and arbitrage strategies. Underlying investments are typically the same as the types invested in both the public equity, fixed income commingled categories, and derivatives. The funds include short positions, and long positions, and may use leverage. Some funds may invest in illiquid investments which are typically segregated into "side pockets" (a separate share class) and are not available for redemption until the investment is liquidated by the manager. The time at which the investments in side pockets will be liquidated is unknown.

(e) This category is invested in both US and international private equity funds and funds of funds whose mandates include leveraged buyouts and growth equity investments in companies.

(f) This category is invested in funds which primarily invest in distressed situations. Investments include marketable securities such as debt obligations and asset backed securities as well as non-marketable investments such as nonperforming and sub performing real estate loans, consumer loans, and distressed debt. Some funds include short positions.

(g) This category includes funds and funds of funds which invest in private real estate internationally and in the U.S. Property types are primarily office, industrial, residential and retail.

(h) This category is invested in venture capital funds and funds of venture capital funds. Underlying investments are primarily private investments in early stage companies.

(i) This category is invested in funds and a fund of funds which make investments primarily in private oil and gas partnerships, timber, mineral and mining companies, and infrastructure such as ports, toll roads, airports and utilities. Funds in this category tend to have longer fund lives.

(j) This category primarily includes investments in publicly traded equity securities and instruments.

(k) This category is invested primarily in publicly traded fixed income securities and instruments including debt obligations of the U.S. government and agencies, non-U.S. sovereign debt, corporate bonds, mortgage and asset backed securities.

(e), (f), (g), (h), (i) These non-marketable funds do not permit redemptions. The timing of the return of capital is at the manager's discretion, subject to provisions documented in limited partnership agreements. In general, capital and realized gains are distributed to investors when an investment is liquidated. Interim

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

distributions of interest, operating income and dividends are made by some funds. Some funds are able to recall distributions. It is estimated that the majority of underlying assets of the funds will be liquidated over the next ten years. The fair values of the investments in this category have been estimated using the net asset value of the Organization's ownership interest in the partners' capital.

(b), (c), (d) The majority of the hedge funds in these categories have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions if they receive redemptions in excess of the gate (a level stated in their governing documents). The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

(j), (k) Certain investments in these categories include gate provisions that do not exceed more than one year after the initial redemption request period, with the fund manager having ultimate discretion which may allow for halting all redemptions for an extended period. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

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 estimated fair value of investments reported in the statement of financial position as of June 30, 2011. However, the diversification of the Organization's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

The following schedule summarizes the composition of investment return for the years ended June 30, 2011 and 2010 (in thousands):

	2011			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Dividends and interest	\$ 18,553	30,212	—	48,765
Net operating investment gains	786	33	—	819
Investment income available for operations	19,339	30,245	—	49,584
Net nonoperating investment gains	77,047	98,209	17,901	193,157
Total return on investments	\$ 96,386	128,454	17,901	242,741

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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

Securities Lending Program: Both the Organization and the Retirement System of The American National Red Cross (the Plan) participate in a securities lending program administered by its custodian. The custodian enters into securities lending agreements with borrowers on behalf of the participants. Either party can terminate the loan at any time. The borrower is required to deliver collateral to the custodian to secure each loan. Such collateral must be delivered prior to or simultaneous with the custodian's delivery of the loaned securities to the borrower. Collateral requirements for each loan are as follows: (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, 102 percent of the market value of loaned securities; and (ii) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market is not located in the United States, 105 percent of the market value of the loaned securities. Cash collateral is invested by the custodian in short-term money market funds based on the security type loaned. Collateral is marked to market at the close of business each day, with settlement of any difference made by the appropriate party.

The following table represents collateral received by the Organization that is measured at fair value on a recurring basis at June 30, 2011 and 2010 (in thousands):

	June 30, 2011	Level 1	Level 2	Level 3
U.S. government securities	\$ 5,941	360	5,581	—
Corporate and foreign sovereign bonds and notes	11,592	—	11,592	—
Common and preferred stocks	14,343	14,343	—	—
Mortgage-backed securities	7,008	—	7,008	—
Other asset-backed securities	17,983	—	17,983	—
Money market	<u>54,076</u>	<u>54,076</u>	<u>—</u>	<u>—</u>
Total	\$ <u>110,943</u>	<u>68,779</u>	<u>42,164</u>	<u>—</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

	June 30, 2010	Level 1	Level 2	Level 3
Corporate and foreign sovereign bonds and notes	\$ 22,140	—	22,140	—
Money market	115,609	115,609	—	—
Total	\$ 137,749	115,609	22,140	—

The following table represents collateral received by the Plan that is measured at fair value on a recurring basis at June 30, 2011 and 2010 (in thousands):

	June 30, 2011	Level 1	Level 2	Level 3
U.S. government securities	\$ 4,062	27	4,035	—
Corporate and foreign sovereign bonds and notes	4,826	—	4,826	—
Mortgage backed securities	4,165	—	4,165	—
Other asset backed securities	2,449	—	2,449	—
Money market	48,296	48,296	—	—
Total	\$ 63,798	48,323	15,475	—

	June 30, 2010	Level 1	Level 2	Level 3
Corporate and foreign sovereign bonds and notes	\$ 26,225	—	26,225	—
Money market	104,429	104,429	—	—
Total	\$ 130,654	104,429	26,225	—

In August 2011, both the Organization and the Plan terminated their participation in the securities lending program.

(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 \$200 million and \$156 million in assets under these agreements as of June 30, 2011 and 2010, respectively, which are included in other assets on the consolidated statement of financial position, \$41 million and \$37 million, respectively, are charitable gift annuities and the remainder are assets for which the Organization is not the trustee. Liabilities associated with these agreements are \$21 million and \$22 million as of June 30, 2011 and 2010, respectively, of which \$4 million and \$5 million is included

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

with other current liabilities and \$17 million and \$17 million is included with other noncurrent liabilities on the consolidated statement of financial position, respectively.

(10) Benefit Plans

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

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined benefit pension, funded entirely by the employer. Prior to July 1, 2005, voluntary after tax contributions could be made by active members to fund an optional annuity benefit. The benefit formula is 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 is set to comply with the funding requirements established under the Pension Protection Act of 2006 and to meet the requirements of ERISA. During fiscal years 2011 and 2010, the Organization contributed 9.6 percent and 5.6 percent of covered payroll to the Retirement System respectively.

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

The Plan assets were invested in the following categories at June 30, 2011 and 2010:

	Pension assets	
	2011	2010
Cash and short-term investments	9%	9%
Domestic equity	4	9
International equity	17	14
Fixed income	32	30
Commodities	3	3
Marketable and nonmarketable alternative funds	35	35
	100%	100%

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

The Plan assets were within authorized asset allocation ranges at June 30, 2011 and 2010.

The following tables represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2011 and 2010 (in thousands):

	Fair value measurements at June 30, 2011			
	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ 75,982	85,513	—	161,495
Corporate and foreign sovereign bonds and notes	28,530	296,242	—	324,772
Common and preferred stocks	226,513	166,529	—	393,042
Other asset-backed assets	—	1,236		1,236
Fund of hedge funds	—	—	46,872	46,872
Global macro hedge funds	—	—	33,244	33,244
Hedged equity funds	—	—	128,077	128,077
Multistrategy and other hedge funds	—	—	66,053	66,053
Buyout and growth equity funds	—	—	122,855	122,855
Distressed debt and turnaround funds	—	—	48,673	48,673
Private real estate funds	—	—	49,979	49,979
Venture capital funds	—	—	22,913	22,913
Commodity sensitive private equity and infrastructure funds	—	—	106,561	106,561
Commodities	—	55,582	—	55,582
Derivative contracts	—	9,343	—	9,343
Money market and other	40,946	132,823	—	173,769
Equity interest in par annuity	—	—	44,360	44,360
Guaranteed accumulation fund	—	—	54,750	54,750
Total	\$ 371,971	747,268	724,337	1,843,576

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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

The following tables presents the Organization's defined benefit plan activity for plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011 (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)					
	Fund of Hedge Funds	Global Macro Hedge Funds	Hedged Equity Funds	Multi-Strategy and Other Hedge Funds	Buyout and Growth Equity Funds	Distressed debt and Turnaround Funds
Balance at June 30, 2010	\$ 41,999	30,896	125,472	51,262	93,563	43,935
Total realized and unrealized gains	4,873	4,648	38,148	4,023	20,561	5,579
Purchases, issuance, and settlements, net	—	(2,300)	(35,543)	10,768	8,731	(841)
Balance at June 30, 2011	\$ 46,872	33,244	128,077	66,053	122,855	48,673
Total gains for the period included in income attributable to the change in unrealized gains relating to assets held at June 30, 2011	\$ 4,874	4,647	33,681	1,380	13,232	4,536

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

	Fair value measurements using significant unobservable inputs (Level 3)					
	Private Real Estate Funds	Venture Capital Funds	Commodity-sensitive Private Equity and Infrastructure Funds	Equity interest in participating annuity	Guaranteed Accumulation Fund	Total
Balance at June 30, 2010	\$ 36,946	18,144	92,935	38,339	58,012	631,503
Total realized and unrealized gains (losses)	4,372	4,272	12,420	12,021	(3,262)	107,655
Purchases, issuance, and settlements, net	8,661	497	1,206	(6,000)	—	(14,821)
Balance at June 30, 2011	\$ 49,979	22,913	106,561	44,360	54,750	724,337
Total gains (losses) for the period included in income attributable to the change in unrealized gains relating to assets held at June 30, 2011	\$ 3,974	2,852	9,261	12,021	(3,261)	87,196

The Plan transacts in a variety of derivative instruments and contracts including both swaps and options for investment and hedging purposes in order to create certain exposures or mitigate certain exposures. Each instrument's primary underlying exposure is interest rates, equities, commodities, or currencies. Such contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Use of swaps partially mitigates counterparty risk. The Plan's derivatives are all transacted over-the-counter.

Interest rate swap agreements are derivative instruments used by the Plan to mitigate the risk of changes in interest rates on the Plan's benefit liabilities. The interest rate swap agreements are required to be marked to fair value. At June 30, 2011, the aggregate notional principal amount under the interest rate swap agreements, all maturing in 2041, totaled \$75 million. The estimated fair value of the interest rate swap agreements was an asset of approximately \$0.9 million as of June 30, 2011. The change in fair value on these interest rate swap agreements was an unrealized gain of approximately \$0.9 million for the year ended June 30, 2011 and is included in actual return on plan assets available for plan benefits.

Commodity swap agreements are derivatives instrument used by the Plan to gain exposure to various underlying commodity futures. The commodity swap is required to be marked to fair value. At June 30, 2011, the notional principal amount under the commodity swap agreement was \$8 million. The estimated fair value was an asset of approximately \$0.2 million as of June 30, 2011. The change in fair value on the agreement was an unrealized gain of approximately \$0.2 million for the year ended June 30, 2011 and is included in actual return on plan assets available for plan benefits.

The Plan uses an equity swap agreement to invest in a number of mostly Asian exchange-traded funds. The equity swap is required to be marked to fair value. At June 30, 2011, the notional principal amount under the equity swap agreement was \$16 million. The estimated fair value was an asset of approximately \$26,000 as of June 30, 2011. The change in fair value on the agreement was an unrealized gain of approximately \$26,000 for the year ended June 30, 2011 and is included in actual return on plan assets available for plan benefits.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

The Plan uses a foreign exchange option to reduce the impact of certain low probability extreme events (tail risk) on the Plan's assets or liabilities. The purchase price of the option at inception was \$7.5 million. Subsequent to inception, the option is required to be marked to fair value on a recurring basis. Under this option contract, the Plan's maximum potential loss is the \$7.5 million initial investment cost (option premium). At June 30, 2011, the notional principal amount under the option contract was \$320 million. The estimated fair value on the agreement was an asset of approximately \$8 million as of June 30, 2011. The change in fair value on the agreement was an unrealized gain of approximately \$0.7 million for the year ended June 30, 2011 and is included in actual return on plan assets available for plan benefits.

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2011 (in thousands):

<u>Derivative Type</u>	<u>Notional/ Contractual Amount</u>	<u>Gross Derivative Assets</u>	<u>Gross Derivative Liabilities</u>
Interest Rate Contracts	\$ 75,000	\$ 2,311	1,368
Commodity Swap	8,000	242	—
Equity Swap	16,000	26	—
Foreign Exchange Option	320,000	8,132	—
Total		<u>\$ 10,711</u>	<u>1,368</u>
Carrying value of derivatives included in pension plan assets		<u>\$ 10,711</u>	<u>1,368</u>

For the valuation of the Plan's derivative contracts at June 30, 2011, the Plan used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves, measures of interest rate volatility and various market indices. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Plan. See note 8 for definitions of Levels 1, 2 and 3.

The American Red Cross Life and Health Benefits Plan: 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 \$101 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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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. For calendar year 2011, most Medicare eligible retirees were offered a Healthcare Reimbursement Account to utilize in purchasing individual coverage through Senior Educators, an exchange program CMS approved Medicare, Part D Prescription Drug and Medicare Supplement offering.

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, 2011 and 2010 (in thousands):

	Pension benefits		Postretirement benefits	
	2011	2010	2011	2010
Changes in benefit obligations:				
Benefit obligations at beginning of year	\$ 2,243,022	2,020,908	79,911	80,539
Service cost	59,690	55,491	770	1,069
Interest cost	130,055	126,819	4,138	4,887
Plan amendment	—	—	(409)	—
Actuarial (gain) loss	79,219	110,293	(1,321)	(2,054)
Benefits paid	(75,764)	(70,489)	(3,601)	(4,530)
Benefit obligations at end of year	<u>2,436,222</u>	<u>2,243,022</u>	<u>79,488</u>	<u>79,911</u>
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,560,641	1,372,433	—	—
Actual return on plan assets	248,894	189,329	—	—
Employer contributions	109,805	69,368	—	—
Benefits paid	(75,764)	(70,489)	—	—
Fair value of plan assets at end of year	<u>1,843,576</u>	<u>1,560,641</u>	<u>—</u>	<u>—</u>
Funded status/accrued benefit costs	<u>\$ (592,646)</u>	<u>(682,381)</u>	<u>(79,488)</u>	<u>(79,911)</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

Pension-related changes other than net periodic benefit cost for 2011:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service credit (cost)	\$ 836	(32,872)	(32,036)
Amortized net loss	8,982	—	8,982
Net actuarial gain	<u>30,662</u>	<u>1,321</u>	<u>31,983</u>
	\$ <u>40,480</u>	<u>(31,551)</u>	<u>8,929</u>

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

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

Items not yet recognized as a component of net periodic benefit cost for 2011:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit (cost)	\$ 373	(88,658)	(88,285)
Unrecognized net actuarial loss (gain)	<u>534,084</u>	<u>(657)</u>	<u>533,427</u>
	\$ <u>534,457</u>	<u>(89,315)</u>	<u>445,142</u>

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

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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

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

	Pension benefits	Postretirement benefits	Total
Prior service credit (cost)	\$ 373	(33,379)	(33,006)
Net actuarial loss	22,920	—	22,920
	<u>\$ 23,293</u>	<u>(33,379)</u>	<u>(10,086)</u>

The accumulated benefit obligation for the pension plan was approximately \$2.2 billion and \$2.1 billion as of June 30, 2011 and 2010, respectively.

The weighted average assumptions used to determine benefit obligations for 2011 and 2010 were as follows:

	Pension benefits		Postretirement benefits	
	2011	2010	2011	2010
Discount rate	5.75%	5.91%	5.25%	5.33%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2011 and 2010 were as follows:

	Pension benefits		Postretirement benefits	
	2011	2010	2011	2010
Discount rate	5.91%	6.40%	5.33%	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 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2011. The rate was assumed to decrease gradually to 5 percent for 2021 and remain at that level thereafter. A 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2010. The rate was assumed to decrease gradually to 5 percent for 2020 and remain at that level thereafter.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

The components of net periodic benefit cost (credit) for the years ended June 30, 2011 and 2010 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2011	2010	2011	2010
Service cost	\$ 59,690	55,491	770	1,069
Interest cost	130,055	126,819	4,138	4,887
Expected return on plan assets	(139,013)	(134,675)	—	—
Amortization of prior service cost (credit)	836	1,190	(33,281)	(33,281)
Net amortization loss	8,982	—	—	—
Net periodic benefit cost	<u>\$ 60,550</u>	<u>48,825</u>	<u>(28,373)</u>	<u>(27,325)</u>

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	\$ 7	(6)
Effect on postretirement benefit obligation	127	(112)

The Organization expects to contribute approximately \$155 million to its pension plan and \$4.1 million to its postretirement benefit plan during the year ended June 30, 2012.

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
2012	\$ 97,854	4,147
2013	109,328	4,402
2014	120,638	4,810
2015	130,959	5,128
2016	141,234	5,349
2017 – 2019	843,890	28,826
	<u>\$ 1,443,903</u>	<u>52,662</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

American National Red Cross Savings Plan – 401(k) Plan: The Organization sponsors the American National Red Cross Savings Plan (the Savings Plan), a defined contribution plan. Employees are eligible to participate upon hire. Vesting is immediate if hired before June 30, 2005; there is a 3 year cliff vesting schedule if hired on or after July 1, 2005. Prior to May 1, 2009, the American National Red Cross matched 100 percent of the first 4 percent of pay contributed each pay period by the participant. As of May 1, 2009 the American Red Cross temporarily suspended the employer match. There were no contributions to the Savings Plan in 2011 and 2010. For the 2011 calendar year, contribution limits were based on a maximum annual compensation of \$245,000. As of June 30, 2011, there were 19 investment options that an employee could choose from and a self-managed brokerage account option.

(11) Receivables Securitization Program

During fiscal year 2006, the Organization entered into several agreements constituting an Asset Backed Securitization program with a revolving limit of \$100 million. The program sells (securitizes) certain biomedical hospital accounts receivable each month, 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 program is structured to sell the eligible receivables, without legal recourse, to a third party investor, through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables.

On July 1, 2010, the Organization adopted Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic860): Accounting for Transfers of Financial Assets* (ASU 2009-16), which affected the accounting treatment of its receivables securitization program. Under the new guidance, proceeds received under the securitization program are treated as secured borrowings, whereas previously they were treated as proceeds from the sale of receivables. The impact of the new accounting treatment resulted in the recognition of both the receivables securitized under the program and the borrowings they collateralize on the consolidated statement of financial position, which led to a \$150 million increase in trade receivables and current other liabilities as of June 30, 2011. There was no impact to the Organization's consolidated net assets as a result of the change in accounting principle. The maximum amount of the agreement is \$150 million and the total cost of the program approximates the 30 day Libor plus 1.35 percent. At June 30, 2011, the amount of outstanding borrowings under the securitization program was \$150 million.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2011

(with summarized information for the year ended June 30, 2010)

Prior to the adoption of ASU 2009-16, the funding transactions were accounted for as sales of trade receivables. As of June 30, 2010, the outstanding balance of securitized accounts receivable held by the third party investor was approximately \$157 million of which the Organization's subordinated retained interest was approximately \$7.3 million. Accordingly, \$150 million of accounts receivable balances, net of applicable allowances, were removed from the statement of financial position as of June 30, 2010. Under the previous accounting treatment, the Organization used the current value of the receivables to measure the fair value of its retained interest. No present value calculation was performed since the life of the receivables is usually less than 30 days.

(12) Commitments and Contingencies

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

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

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

(13) Subsequent Events

The Organization has evaluated subsequent events through the date the financial statements were issued, October 26, 2011.