



**THE AMERICAN NATIONAL RED CROSS**

Consolidated Financial Statements  
including Schedule of Operating Revenues and Expenses for the Desert to the Sea  
Region

June 30, 2014

(With Independent Auditors' Report Thereon)

**THE AMERICAN NATIONAL RED CROSS**  
Consolidated Financial Statements  
including Schedule of Operating Revenues and Expenses  
for the Desert to the Sea Region

June 30, 2014

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KPMG LLP  
1676 International Drive  
McLean, VA 22102

## **Independent Auditors' Report**

The Board of Governors  
The American National Red Cross:

We have audited the accompanying consolidated financial statements of The American National Red Cross (the Organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2014, and the changes in their net assets, their functional expenses and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



***Report on Summarized Comparative Information***

We have previously audited The American National Red Cross 2013 consolidated financial statements, and expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 23, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in Schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**KPMG LLP**

October 29, 2014

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Financial Position

June 30, 2014

(with comparative information as of June 30, 2013)

(In thousands)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Cash and cash equivalents	\$ 46,976	\$ 82,721
Investments (Note 8)	521,485	618,139
Trade receivables, including grants, net of allowance for doubtful accounts of \$4,463 in 2014 and \$6,963 in 2013 (Note 11)	190,528	233,089
Contributions receivable, net (Note 2)	83,830	80,303
Inventories, net of allowance for obsolescence of \$3,832 in 2014 and \$4,714 in 2013	108,979	112,950
Other current assets	16,798	23,230
<b>Total current assets</b>	<b>968,596</b>	<b>1,150,432</b>
Investments (Note 8)	1,553,756	1,466,762
Contributions receivable, net (Note 2)	11,981	12,205
Land, buildings, and other property, net (Note 3)	995,695	1,018,454
Other assets (Note 9)	261,615	250,982
<b>Total assets</b>	<b>3,791,643</b>	<b>3,898,835</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	280,869	325,810
Current portion of debt (Note 4)	18,532	18,236
Postretirement benefits (Note 10)	3,807	3,734
Other current liabilities (Notes 9 and 11)	132,228	154,398
<b>Total current liabilities</b>	<b>435,436</b>	<b>502,178</b>
Debt (Note 4)	727,221	695,755
Pension and postretirement benefits (Note 10)	520,029	554,645
Other liabilities (Notes 4 and 9)	148,199	156,200
<b>Total liabilities</b>	<b>1,830,885</b>	<b>1,908,778</b>
Net assets (Notes 6 and 7):		
Unrestricted net assets	339,577	398,444
Temporarily restricted net assets	857,420	861,605
Permanently restricted net assets	763,761	730,008
<b>Total net assets</b>	<b>1,960,758</b>	<b>1,990,057</b>
Commitments and contingencies (Notes 4, 5, 8, 10, 11, 12)		
<b>Total liabilities and net assets</b>	<b>\$ 3,791,643</b>	<b>\$ 3,898,835</b>

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Consolidated Statement of Activities

Year ended June 30, 2014  
(with summarized information for the year ended June 30, 2013)  
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2014	2013
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	\$ 236,470	\$ 273,629	\$ -	\$ 510,099	\$ 830,998
United Way and other federated	25,857	77,882	-	103,739	95,530
Legacies and bequests	55,156	10,271	20,814	86,241	96,224
Services and materials	12,198	10,780	-	22,978	54,502
Products and services:					
Biomedical	1,889,790	-	-	1,889,790	2,037,732
Program materials	129,455	-	-	129,455	125,153
Contracts, including federal government	73,933	-	-	73,933	73,132
Investment income (Note 8)	53,367	32,471	-	85,838	48,697
Other revenues	86,620	446	-	87,066	73,973
Net assets released from restrictions	481,430	(481,430)	-	-	-
<b>Total operating revenues and gains</b>	<b>3,044,276</b>	<b>(75,951)</b>	<b>20,814</b>	<b>2,989,139</b>	<b>3,435,941</b>
Operating expenses:					
Program services:					
Services to the Armed Forces	46,173	-	-	46,173	56,645
Biomedical services (Note 12)	1,979,894	-	-	1,979,894	2,164,815
Community services	49,458	-	-	49,458	57,200
Domestic disaster services	364,074	-	-	364,074	467,245
Health and safety services	196,125	-	-	196,125	216,222
International relief and development services	127,385	-	-	127,385	92,742
<b>Total program services</b>	<b>2,763,109</b>	<b>-</b>	<b>-</b>	<b>2,763,109</b>	<b>3,054,869</b>
Supporting services:					
Fund raising	183,224	-	-	183,224	189,431
Management and general	115,899	-	-	115,899	136,283
<b>Total supporting services</b>	<b>299,123</b>	<b>-</b>	<b>-</b>	<b>299,123</b>	<b>325,714</b>
<b>Total operating expenses</b>	<b>3,062,232</b>	<b>-</b>	<b>-</b>	<b>3,062,232</b>	<b>3,380,583</b>
Change in net assets from operations	(17,956)	(75,951)	20,814	(73,093)	55,358
Nonoperating gains (losses) (Notes 5 and 8)	12,235	71,766	12,939	96,940	92,181
Pension-related changes other than net periodic benefit cost (Note 10)	(53,146)	-	-	(53,146)	247,295
	-	-	-	-	-
Change in net assets	(58,867)	(4,185)	33,753	(29,299)	394,834
Net assets, beginning of year	398,444	861,605	730,008	1,990,057	1,595,223
Net assets, end of year	\$ 339,577	\$ 857,420	\$ 763,761	\$ 1,960,758	\$ 1,990,057

See accompanying notes to the consolidated financial statements.

**THE AMERICAN NATIONAL RED CROSS**

Statement of Functional Expenses

Year ended June 30, 2014  
(with summarized information for the year ended June 30, 2013)  
(In thousands)

	Program Services							
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief & Development Services	Total Program Services	
Salaries and wages	\$ 25,267	\$ 886,080	\$ 19,245	\$ 98,119	\$ 80,546	\$ 20,891	\$ 1,130,148	
Employee benefits	6,267	219,777	4,773	24,337	19,978	5,182	280,314	
Subtotal	31,534	1,105,857	24,018	122,456	100,524	26,073	1,410,462	
Travel and maintenance	1,530	31,192	701	17,428	7,301	5,003	63,155	
Equipment maintenance and rental	355	61,301	2,439	10,856	2,025	1,350	78,326	
Supplies and materials	1,409	462,548	6,425	8,044	11,761	1,227	491,414	
Contractual services	8,104	276,215	9,267	61,399	66,342	8,957	430,284	
Financial and material assistance	2,224	2,990	4,698	132,466	2,565	84,110	229,053	
Depreciation and amortization	1,017	39,791	1,910	11,425	5,607	665	60,415	
Total expenses	\$ 46,173	\$ 1,979,894	\$ 49,458	\$ 364,074	\$ 196,125	\$ 127,385	\$ 2,763,109	

	Supporting Services					
	Fund Raising	Management and General	Total Supporting Services	Total Expenses		
				2014	2013	
Salaries and wages	\$ 91,446	\$ 46,115	\$ 137,561	\$ 1,267,709	\$ 1,333,519	
Employee benefits	22,682	11,438	34,120	314,434	443,467	
Subtotal	114,128	57,553	171,681	1,582,143	1,776,986	
Travel and maintenance	5,643	2,776	8,419	71,574	117,546	
Equipment maintenance and rental	856	1,333	2,189	80,515	102,303	
Supplies and materials	3,676	376	4,052	495,466	512,356	
Contractual services	55,514	51,101	106,615	536,899	561,639	
Financial and material assistance	646	299	945	229,998	246,548	
Depreciation and amortization	2,761	2,461	5,222	65,637	63,205	
Total expenses	\$ 183,224	\$ 115,899	\$ 299,123	\$ 3,062,232	\$ 3,380,583	

See accompanying notes to the consolidated financial statements.

# THE AMERICAN NATIONAL RED CROSS

## Consolidated Statement of Cash Flows

Year ended June 30, 2014  
(with comparative information for the year ended June 30, 2013)  
(In thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (29,299)	\$ 394,834
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	65,637	63,205
Provision for doubtful accounts and contributions receivable	1,246	1,195
Provision (recovery) for obsolete inventory	(882)	610
Net gain on sales of property	(6,683)	(4,965)
Net investment and derivative gain	(119,682)	(86,778)
Pension and postretirement related changes other than net periodic benefit costs	53,146	(247,295)
Permanently restricted contributions	(20,814)	(22,011)
Changes in operating assets and liabilities:		
Receivables	38,012	(24,234)
Inventories	4,853	316
Other assets	(4,201)	(106)
Accounts payable and accrued expenses	(44,941)	44,798
Other liabilities	(31,165)	(27,943)
Pension and postretirement benefits	(87,689)	(199,953)
<b>Net cash used in operating activities</b>	<b>(182,462)</b>	<b>(108,327)</b>
Cash flows from investing activities:		
Purchases of property	(53,305)	(39,035)
Proceeds from sales of property	17,110	13,134
Purchases of investments	(145,237)	(320,896)
Proceeds from sales of investments	275,573	302,296
<b>Net cash provided by (used in) investing activities</b>	<b>94,141</b>	<b>(44,501)</b>
Cash flows from financing activities:		
Permanently restricted contributions	20,814	22,011
Proceeds from borrowings	50,000	175,000
Repayments of debt	(18,238)	(14,367)
<b>Net cash provided by financing activities</b>	<b>52,576</b>	<b>182,644</b>
Net (decrease)/increase in cash and cash equivalents	(35,745)	29,816
Cash and cash equivalents, beginning of year	82,721	52,905
<b>Cash and cash equivalents, end of year</b>	<b>\$ 46,976</b>	<b>\$ 82,721</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 26,937	\$ 17,903
Noncash investing and financing transactions:		
Contribution related to acquisition of an organization	\$ 19,994	-

See accompanying notes to the consolidated financial statements.



# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

### (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, functional expenses 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% owned captive insurance subsidiary, ARC Receivables Company, LLC, a wholly owned bankruptcy-remote special purpose entity, and Delta Blood Bank, LLC, a wholly owned blood bank. 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, four 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 U.S. 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, 2013 from which the summarized information was derived.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

**Use of Estimates:** The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from management's estimates.

**Cash Equivalents:** The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and overnight investments of approximately \$25 million and \$66 million as of June 30, 2014 and 2013, respectively.

**Investments:** Investments are reported at fair value except for certain commingled funds and alternative funds that, as a practical expedient, are reported at estimated fair value utilizing net asset values. Net asset value, in many instances may not equal the fair value. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2014. 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.

# THE AMERICAN NATIONAL RED CROSS

## Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

**Derivative Financial Instruments:** The Organization makes use of derivative financial instruments in order to mitigate certain risks. Derivative financial instruments are recorded at fair value (note 8). Derivatives in an asset and liability position are offset against each other and reported net in investments in the statement of financial position.

**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

## THE AMERICAN NATIONAL RED CROSS

### Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

**Long-Lived Assets:** Long-lived assets, such as land, building and other property, 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 loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**Property and Casualty Insurance:** The Organization maintains various insurance policies under which it assumes a portion of each insured loss. Assumed losses are retained by the Organization through its wholly owned insurance subsidiary, Boardman Indemnity, Ltd. (Boardman). The Organization also purchases insurance to supplement the coverage by Boardman. The liabilities for outstanding losses and incurred but not reported claims have been determined based on actuarial studies and are reported as other liabilities in the consolidated statement of financial position, and were approximately \$99 million and \$104 million as of June 30, 2014 and 2013, respectively.

**Revenue Recognition:** Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Contributions receivable due beyond one year are stated at net present value of the estimated cash flows using a risk-adjusted rate. 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 grants and contracts, including those 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.

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## Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

**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, 2014 and 2013 of approximately \$6 million and \$13 million, respectively, mostly in support of the disaster services program.

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

**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. At June 30, 2014 and 2013, 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.

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

### (2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2014 and 2013 (in thousands):

	<b>2014</b>	<b>2013</b>
Amounts receivable within one year	\$ 89,663	82,390
Amounts receivable in 1 to 5 years (net of discount of \$251 and \$601 for 2014 and 2013, respectively)	11,981	12,205
Total contributions receivable before allowance for uncollectible amounts	101,644	94,595
Less allowance for uncollectible amounts	(5,833)	(2,087)
Contributions receivable, net	95,811	92,508
Less current portion	83,830	80,303
Contributions receivable, net, noncurrent	\$ 11,981	12,205

Amounts presented above have been discounted to present value using various discount rates ranging between 0.11% and 2.53%.

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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

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

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Land	\$ 123,561	118,199
Buildings and improvements	1,158,088	1,152,054
Equipment and software	708,913	712,042
Buildings and equipment under capital lease	<u>1,787</u>	<u>1,787</u>
Total cost of assets placed in service	1,992,349	1,984,082
Less accumulated depreciation and amortization	(1,014,215)	(985,284)
Construction-in-progress	<u>17,561</u>	<u>19,656</u>
Land, buildings, and other property, net	<u>\$ 995,695</u>	<u>1,018,454</u>

**(4) Debt**

Debt consists of the following at June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Fixed rate debt:		
Bearing interest rates ranging from 1.30% to 5.85%, due calendar year 2014 through 2036	\$ 508,343	459,505
Variable rate debt:		
Bearing interest rates ranging from 0.02% to 0.82%, due calendar year 2014 through 2034:		
Variable rate debt with demand repayment rights	187,308	194,295
Variable rate debt without demand repayment rights	<u>50,000</u>	<u>60,000</u>
Total bonds and notes payable	745,651	713,800
Obligations under capital leases (note 5)	<u>102</u>	<u>191</u>
Total debt	745,753	713,991
Less current portion	<u>18,532</u>	<u>18,236</u>
Debt, noncurrent portion	<u>\$ 727,221</u>	<u>695,755</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

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Notes to Consolidated Financial Statements

June 30, 2014

(with summarized information for the year ended June 30, 2013)

amount of \$204 million and \$217 million for fiscal years 2014 and 2013, respectively, to provide liquidity in the event other funding is not available for repurchasing. As of June 30, 2014, the maturity dates for these liquidity facilities are from calendar year 2014 through 2016. Approximately \$94 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 remaining debt with demand repayment rights is remarketed on a weekly basis bearing interest rates that are reset weekly.

Certain of the Organization's debt agreements include covenants that require the Organization to maintain certain levels of financial ratios. Management believes the Organization was in compliance with its covenant requirements as of and for the year ended June 30, 2014.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2014 are as follows (in thousands):

2015	\$	18,532
2016		17,180
2017		31,666
2018		42,173
2019		40,489
Thereafter		595,713
	\$	<u>745,753</u>

The carrying value and estimated fair value of the Organization's noncurrent debt as of June 30, 2014 and 2013 are summarized as follows (in thousands):

	<b>2014</b>		<b>2013</b>	
	<u>Carrying value</u>	<u>Fair value Level 2</u>	<u>Carrying value</u>	<u>Fair value Level 2</u>
Noncurrent debt	\$ 727,221	762,519	695,755	723,795

The fair value estimate is based on quoted prices for bond issues with similar maturities and credit quality (Level 2). See note 8 for definitions of Level 1, 2 and 3. The market prices utilized reflect the rate the Organization would have to pay a credit worthy third party to assume its obligation and do not reflect an additional liability to the Organization.

Interest expense was approximately \$34 million and \$25 million for the years ended June 30, 2014 and 2013, respectively, which is included in contractual services on the statement of functional expenses.

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**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, 2014 and 2013, there were no borrowings outstanding under lines of credit. The Organization had unused lines of credit outstanding of approximately \$340 million and \$215 million at June 30, 2014 and 2013, 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 \$237 million and \$254 million at June 30, 2014 and 2013, 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 recognized at fair value and recorded on the statement of financial position. At June 30, 2014, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2014 through 2021, totaled \$105 million. At June 30, 2013, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2013 through 2021, totaled \$118 million. The estimated fair value of the interest rate swap agreements was a liability of approximately \$7 million and \$8 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2014 and 2013.

The change in fair value on these interest rate swap agreements was a gain of approximately \$1 million and \$4 million for the years ended June 30, 2014 and 2013, respectively, and is included in nonoperating gains in the consolidated statements of activities.

The following table represents the interest rate swap liabilities that are measured at fair value on a recurring basis at June 30, 2014 and 2013 (in thousands):

	<b>Fair value measurements</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Interest rate swap liabilities at June 30, 2014	\$ —	6,657	—
Interest rate swap liabilities at June 30, 2013	—	7,852	—

For the valuation of the interest rate swap at June 30, 2014 and 2013, 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.



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**Letters of Credit:** The Organization had unused letters of credit outstanding of approximately \$52 million and \$60 million at June 30, 2014 and 2013, respectively.

**(5) 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):

	<u>Operating</u>	<u>Capital</u>
2015	\$ 23,684	98
2016	19,605	1
2017	16,163	1
2018	12,275	1
2019	8,275	1
Thereafter	<u>39,707</u>	<u>8</u>
Total minimum lease payments	\$ <u>119,709</u>	110
Less amounts representing interest		<u>(8)</u>
Present value of net minimum lease payments (note 4)		\$ <u>102</u>

Total rent expense was approximately \$52 million and \$48 million for the years ended June 30, 2014 and 2013, respectively, and is included in contractual services on the consolidated statement of functional expenses.

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2014, are as follows (in thousands):

2015	\$ 13,616
2016	13,754
2017	13,895
2018	14,040
2019	14,189
Thereafter	<u>14,342</u>
Total minimum lease payments to be received	\$ <u>83,836</u>

Total rental income was approximately \$13 million for both years ended June 30, 2014 and 2013, respectively, and is included in other revenues on the consolidated statement of activities.

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#### (6) Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Disaster services	\$ 92,430	169,197
Biomedical services	334	541
Health and safety services	2,383	1,215
International relief and development services	260,037	259,651
Community services	3,087	3,318
Buildings and equipment	7,105	8,412
Endowment inflation adjustment reserve	200,024	187,200
Endowment assets available for future appropriation	200,756	142,277
Other specific purposes	25,902	27,868
Time restricted	65,362	61,926
Total temporarily restricted net assets	<u>\$ 857,420</u>	<u>861,605</u>

Permanently restricted net assets at June 30, 2014 and 2013 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).

#### (7) 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. 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.

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).

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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. To the extent that distributions exceed net investment income, they are made from accumulated 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 3.9% for year 2014 and 3.8% for year 2013 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately \$32 million and \$31 million for the years ended June 30, 2014 and 2013, respectively. Approximately \$24 million and \$26 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2014 and 2013, respectively. A spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2015.

Net asset classification by type of endowment as of June 30, 2014, is as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	400,780	581,429	982,209

Changes in endowment net assets for the year ended June 30, 2014 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	329,477	561,835	891,312
Investment return:				
Investment income	—	31,967	—	31,967
Net appreciation (net realized and unrealized gains/losses)	—	71,304	—	71,304
Total investment return	—	103,271	—	103,271
Contributions	—	—	19,594	19,594
Appropriation of endowment assets for expenditure	—	(31,968)	—	(31,968)
Endowment net assets, end of year	\$ —	400,780	581,429	982,209

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Net asset classification by type of endowment as of June 30, 2013 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	329,477	561,835	891,312

Changes in endowment net assets for the year ended June 30, 2013 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	285,468	542,602	828,070
Investment return:				
Investment income	—	31,343	—	31,343
Net appreciation (net realized and unrealized gains/losses)	—	44,009	—	44,009
Total investment return	—	75,352	—	75,352
Contributions	—	—	19,233	19,233
Appropriation of endowment assets for expenditure	—	(31,343)	—	(31,343)
Endowment net assets, end of year	<u>\$ —</u>	<u>329,477</u>	<u>561,835</u>	<u>891,312</u>

**(8) Investments and Fair Value Measurements**

The Organization applies the provisions of 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.

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- 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 classified as Level 2 if they are redeemable at or near year-end otherwise they are considered Level 3.

Transfers between levels may occur when there is a change in the observability of significant inputs. A transfer between Level 1 and Level 2 generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with observable market data. Transfers between levels are recognized on the date they occur. For the years ended June 30, 2014 and 2013, there were no transfers in or out of Levels 1, 2 or 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 following table represents investments that are measured at fair value on a recurring basis at June 30, 2014 and 2013 (in thousands):

	<b>June 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. government securities	\$ 139,679	11,652	128,027	—
Corporate and foreign sovereign bonds and notes	312,500	137,101	175,399	—
Common and preferred stocks	325,051	265,893	59,158	—
Mortgage-backed assets	6,887	—	6,887	—
Fund of hedge funds	68,409	—	—	68,409
Global macro hedge funds	64,094	—	—	64,094
Hedged equity funds	185,986	—	—	185,986
Multistrategy and other hedge funds	135,768	—	—	135,768
Buyout and growth equity funds	140,179	—	—	140,179
Distressed debt and turnaround funds	37,800	—	—	37,800
Private real estate funds	39,439	—	—	39,439
Venture capital funds	13,493	—	—	13,493
Other private market funds	34,509	—	—	34,509
Commodities	2,501	—	2,501	—
Derivative contracts	4,770	—	4,770	—
Money market and other	564,176	2,857	561,319	—
<b>Total investments</b>	<b>\$ 2,075,241</b>	<b>417,503</b>	<b>938,061</b>	<b>719,677</b>

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	<u>June 30,</u> <u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government securities	\$ 203,755	12,889	190,866	—
Corporate and foreign sovereign bonds and notes	194,849	28,190	166,659	—
Common and preferred stocks	359,441	299,285	60,156	—
Mortgage-backed assets	9,656	—	9,656	—
Other asset-backed assets	400	—	—	400
Fund of hedge funds	42,092	—	—	42,092
Global macro hedge funds	32,434	—	—	32,434
Hedged equity funds	203,224	—	—	203,224
Multistrategy and other hedge funds	115,400	—	—	115,400
Buyout and growth equity funds	124,279	—	—	124,279
Distressed debt and turnaround funds	34,336	—	—	34,336
Private real estate funds	38,605	—	—	38,605
Venture capital funds	12,673	—	—	12,673
Other private market funds	33,793	—	—	33,793
Commodities	4,209	—	4,209	—
Derivative contracts	(595)	—	(595)	—
Money market and other	676,350	5,336	671,014	—
	<u>\$ 2,084,901</u>	<u>345,700</u>	<u>1,101,965</u>	<u>637,236</u>
Total investments	\$ 2,084,901	345,700	1,101,965	637,236

For the valuation of certain government, corporate and foreign sovereign bonds and notes, common and preferred stocks, and money market and other at June 30, 2014 and 2013, 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, mortgage and other asset-backed securities, commodities, and money market and other at June 30, 2014 and 2013, the Organization used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2). Commingled funds are classified as Level 2 as they are redeemable at net asset value at or near year-end.

The valuation of hedge funds, buyout and growth equity funds, distressed debt and turnaround funds, private real estate funds, venture capital funds, other private market funds, and commodities at June 30, 2014 and 2013, are reported at estimated fair value utilizing the net asset values provided by fund managers as a practical expedient. While these funds' net asset values utilize significant unobservable inputs (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.

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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 years ended June 30, 2014 and 2013 (in thousands):

	<u>Balance at June 30, 2013</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Realized gains (losses)</u>	<u>Change in unrealized gains (losses)</u>	<u>Balance at June 30, 2014</u>
Other asset backed securities	\$ 400	—	(417)	—	17	—
Fund of hedge funds	42,092	23,000	—	—	3,317	68,409
Global macro hedge funds	32,434	30,000	—	—	1,660	64,094
Hedged equity funds	203,224	1,894	(67,358)	42,353	5,873	185,986
Multistrategy and other hedge funds	115,400	49,793	(36,592)	(2,368)	9,535	135,768
Buyout and growth equity funds	124,279	13,985	(11,048)	3	12,960	140,179
Distressed debt and turnaround funds	34,336	13,578	(5,306)	—	(4,808)	37,800
Private real estate funds	38,605	5,904	(8,652)	—	3,582	39,439
Venture capital funds	12,673	1,573	(601)	—	(152)	13,493
Other private market funds	33,793	6,172	(2,597)	—	(2,859)	34,509
	<u>\$ 637,236</u>	<u>145,899</u>	<u>(132,571)</u>	<u>39,988</u>	<u>29,125</u>	<u>719,677</u>

	<u>Balance at June 30, 2012</u>	<u>Purchases</u>	<u>Settlements</u>	<u>Realized gains (losses)</u>	<u>Change in unrealized gains (losses)</u>	<u>Balance at June 30, 2013</u>
Other asset backed securities	\$ 354	—	—	—	46	400
Fund of hedge funds	58,095	—	(22,641)	—	6,638	42,092
Global macro hedge funds	30,227	—	(544)	9	2,742	32,434
Hedged equity funds	166,766	1,829	(4,692)	1,023	38,298	203,224
Multistrategy and other hedge funds	64,584	48,870	(6,579)	852	7,673	115,400
Buyout and growth equity funds	117,128	18,680	(20,715)	9,425	(239)	124,279
Distressed debt and turnaround funds	45,497	4,586	(22,201)	1,039	5,415	34,336
Private real estate funds	33,438	6,673	(3,177)	379	1,292	38,605
Venture capital funds	15,124	692	(3,180)	2,701	(2,664)	12,673
Other private market funds	28,281	8,654	(3,481)	1,549	(1,210)	33,793
	<u>\$ 559,494</u>	<u>89,984</u>	<u>(87,210)</u>	<u>16,977</u>	<u>57,991</u>	<u>637,236</u>

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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, 2014 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fund of hedge funds (a)	\$ 68,409	—	annually	100 days
Global macro hedge funds (b)	64,094	—	monthly, quarterly, annually	5-90 days
Hedged equity funds (c)	185,986	—	quarterly, annually	45-90 days
Multistrategy and other hedge funds (d)	135,768	—	monthly, quarterly, annually, bi-annually	10-90 days
Buyout and growth equity funds (e)	140,179	42,507	None	—
Distressed debt and turnaround funds (f)	37,800	8,900	None	—
Private real estate funds (g)	39,439	18,910	None	—
Venture capital funds (h)	13,493	4,093	None	—
Other private market funds (i)	34,509	15,645	None	—
Public equity commingled funds (j)	59,158	—	weekly, monthly	1-30 days
Fixed income commingled funds (k)	145,766	—	weekly, monthly	1-30 days
Total	<u>\$ 924,601</u>	<u>90,055</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.

(b) The funds in this category invest primarily in liquid instruments such as fixed income, currency, commodities, equities, and derivatives. The funds include long and short 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 long and short 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



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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, bank debt, convertible bonds and derivatives. The funds include long and short 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 nonmarketable 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, health care royalties, and infrastructure such as ports, toll roads, airports and utilities.

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

(k) This category is invested primarily in commingled funds with investments 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 nonmarketable 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 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) Investments in this category have provisions which allow for the suspension of redemptions in unusual circumstances. Certain investments in these categories have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions if they receive redemptions in excess

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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.

The Organization transacts in a variety of derivative instruments and contracts including both swaps and options for investment and hedging purposes in order to create or mitigate certain exposures. Each instrument's primary underlying exposure is equities or commodities. 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 Organization's derivatives are all transacted over-the-counter.

Commodity swap agreements are derivative instruments used by the Organization to gain exposure to various underlying commodity futures. The commodity swaps are required to be marked to fair value on a recurring basis.

The Organization uses equity options for both investment purposes and to hedge equity market exposure. The Organization uses options for the Euro Stoxx 50 to gain European market exposure. The Organization also uses equity collar strategies to hedge S&P 500 market risk. All equity contracts are marked to fair value on a recurring basis.

The following table lists the notional/contractual amount of derivatives by contract type included in investments at June 30, 2014 and 2013 (in thousands):

Derivative type	2014	2013
Commodity contracts	\$ 23,100	21,500
Equity contracts	284,327	30,000

The following table lists fair value of derivatives by contract type included in investments as of June 30, 2014 and 2013 (in thousands):

Derivative type	Asset derivatives		Liability derivatives	
	2014	2013	2014	2013
Commodity contracts	\$ 335	165	—	97
Equity contracts	4,534	—	99	663
Fair value of derivatives included in investments	\$ 4,869	165	99	760

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The following table lists gains and losses on derivatives by contract type included in investment income as of June 30, 2014 and 2013 (in thousands):

Derivative type	Realized gains/(losses)		Change in unrealized gains/(losses)	
	2014	2013	2014	2013
Commodity contracts	\$ (201)	(224)	268	(386)
Equity contracts	(6,749)	265	493	567
	\$ (6,950)	41	761	181

For the valuation of the Organization's derivative contracts at June 30, 2014, 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, 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 Organization.

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 consolidated statement of financial position as of June 30, 2014. However, the diversification of the Organization's invested assets among these various asset classes is management's strategy to 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, 2014 and 2013 (in thousands):

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	\$ 13,172	32,482	—	45,654
Net operating investment gains (losses)	40,195	(11)	—	40,184
Investment income available for operations	53,367	32,471	—	85,838
Net nonoperating investment gains	12,235	71,766	12,939	96,940
Total return on investments	\$ 65,602	104,237	12,939	182,778

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	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Dividends and interest	\$ 13,060	31,874	—	44,934
Net operating investment gains	3,721	42	—	3,763
Investment income available for operations	16,781	31,916	—	48,697
Net nonoperating investment gains	42,670	45,537	3,974	92,181
Total return on investments	\$ 59,451	77,453	3,974	140,878

**(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 \$259 million and \$244 million in assets under these agreements as of June 30, 2014 and 2013, respectively, which are included in other assets on the consolidated statement of financial position, \$44 million and \$41 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 \$22 million for the years ended June 30, 2014 and 2013, respectively, of which \$3 million and \$4 million is included in other current liabilities and \$19 million and \$18 million is included in 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 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.

Subject to provisions contained in collective bargaining agreements where applicable, the Retirement System was 'frozen' on December 31, 2012 (the freeze date). Employees who were participating in the Retirement System as of that date keep vested benefits earned, but stop earning additional pension benefits.

Prior to the freeze date, the benefit formula was based on years of service and the employees' final average compensation. Final average compensation was calculated using the highest consecutive 48 months of the last 120 months of service before the earlier of retirement or the freeze date.

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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 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 2014 and 2013, the Organization contributed 4.9% and 24.4% of covered payroll to the Plan, respectively.

The Organization also has a Defined Benefit Pension Plan for the Delta Blood Bank LLC with a \$2 million liability recorded in pension and postretirement benefits in the accompanying statement of financial position and pension-related changes other than net periodic benefit cost of approximately \$559,000 for fiscal year 2014.

**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 meet certain eligibility conditions as of that date. In addition, the plan was amended to transition Medicare eligible retirees to a private fee-for-service plan and to change the premium supplement tables and indexing effective July 1, 2009. Beginning in calendar year 2011, most Medicare eligible retirees were offered a Healthcare Reimbursement Account to utilize in purchasing individual coverage through an external exchange program CMS approved Medicare, Part D Prescription Drug and Medicare Supplement offering.

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The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the consolidated statements of financial position for the years ended June 30, 2014 and 2013 (in thousands):

	<b>Pension benefits</b>		<b>Postretirement benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Changes in benefit obligations:				
Benefit obligations at beginning of year	\$ 2,448,455	2,835,677	66,248	85,104
Service cost	2,116	27,531	303	615
Interest cost	127,787	129,174	3,130	3,699
Actuarial loss (gain)	162,812	(153,011)	400	(19,960)
Benefits paid	(146,424)	(257,617)	(3,112)	(3,210)
Curtailments	—	(175,895)	—	—
Settlements	—	42,596	—	—
	<u>2,594,746</u>	<u>2,448,455</u>	<u>66,969</u>	<u>66,248</u>
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,956,324	1,915,154	—	—
Actual return on plan assets	251,889	53,746	—	—
Employer contributions	78,134	245,041	—	—
Benefits paid	(146,424)	(95,842)	—	—
Settlements	—	(161,775)	—	—
	<u>2,139,923</u>	<u>1,956,324</u>	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year				
Funded status-accrued benefit costs	\$ <u>(454,823)</u>	<u>(492,131)</u>	<u>(66,969)</u>	<u>(66,248)</u>

Pension-related changes other than net periodic benefit cost for 2014:

	<b>Pension benefits</b>	<b>Postretirement benefits</b>	<b>Total</b>
Prior service cost	\$ —	(21,128)	(21,128)
Amortized net loss (gain)	11,859	(1,986)	9,873
Net actuarial loss	(42,050)	(400)	(42,450)
	<u>\$ (30,191)</u>	<u>(23,514)</u>	<u>(53,705)</u>

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Pension-related changes other than net periodic benefit cost for 2013:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service cost	\$ —	(33,379)	(33,379)
Amortized net loss	13,190	—	13,190
Net actuarial gain	247,524	19,960	267,484
	<u>\$ 260,714</u>	<u>(13,419)</u>	<u>247,295</u>

Items not yet recognized as a component of net periodic benefit cost for 2014:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit	\$ —	(772)	(772)
Unrecognized net actuarial loss (gains)	652,162	(14,268)	637,894
	<u>\$ 652,162</u>	<u>(15,040)</u>	<u>637,122</u>

Items not yet recognized as a component of net periodic benefit cost for 2013:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit	\$ —	(21,900)	(21,900)
Unrecognized net actuarial loss (gains)	621,971	(16,654)	605,317
	<u>\$ 621,971</u>	<u>(38,554)</u>	<u>583,417</u>

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

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service cost	\$ —	(263)	(263)
Net actuarial loss (gain)	16,581	(1,893)	14,688
	<u>\$ 16,581</u>	<u>(2,156)</u>	<u>14,425</u>

The accumulated benefit obligation for the pension plan was approximately \$2.6 billion and \$2.4 billion as of June 30, 2014 and 2013, respectively.

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The weighted average assumptions used to determine benefit obligations for 2014 and 2013 were as follows:

	<b>Pension benefits</b>		<b>Postretirement benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Discount rate	4.83%	5.44%	4.28%	4.86%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2014 and 2013 were as follows:

	<b>Pension benefits</b>		<b>Postretirement benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Discount rate	5.44%	4.96%	4.86%	4.45%
Expected return on plan assets	6.75	6.75	—	—
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, approximately an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2014. The rate was assumed to decrease gradually to 5% for 2022 and remain at that level thereafter. An 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2013. The rate was assumed to decrease gradually to 5% for 2021 and remain at that level thereafter.



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The components of net periodic benefit cost (credit) for the years ended June 30, 2014 and 2013 were as follows (in thousands):

	<b>Pension benefits</b>		<b>Postretirement benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Service cost	\$ 2,115	27,531	303	615
Interest cost	127,787	129,174	3,130	3,699
Expected return on plan assets	(131,127)	(133,629)	—	—
Amortization of prior service cost (credit)	—	—	(21,128)	(33,379)
Net amortization loss (gain)	11,859	13,190	(1,986)	—
Net periodic benefit cost (credit)	\$ 10,634	36,266	(19,681)	(29,065)

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):

	<b>Point increase</b>	<b>Point decrease</b>
Effect on total of service and interest cost components	\$ 8	(10)
Effect on postretirement benefit obligation	187	(226)

The Organization expects to contribute approximately \$67.1 million to its pension plan and \$3.1 million to its postretirement benefit plan during the year ending June 30, 2015.

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

	<b>Pension benefits</b>	<b>Postretirement benefits</b>
2015	\$ 126,829	3,807
2016	134,008	3,841
2017	140,763	3,980
2018	147,053	4,124
2019	152,483	4,222
2020–2024	815,585	21,854
	\$ 1,516,721	41,828

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The Organization has investment guidelines for Plan assets. The overall objective of the guidelines is to ensure the Plan assets provide capital growth over an extended period of time, while also considering market risks and ensuring that the portfolio income and liquidity are appropriate to meet the Plan benefit payments and other expenses. The Plan investments are required to be diversified by asset class and within each asset class, in order to ensure that no single investment will have a disproportionate impact on the total portfolio. The Plan asset allocation is reviewed each year with current market assumptions to ensure the asset mix will achieve the long-term goals of the Plan. See note 8 for descriptions of the methodologies used to value plan assets, except for the equity interest in the par annuity and guaranteed accumulation fund which are valued based on significant unobservable inputs including discounted cash flows analysis, comparable analysis, or third party appraisals. See note 8 for the definitions of Levels 1, 2, and 3.

The Plan assets were invested in the following categories at June 30, 2014 and 2013:

	<b>Pension assets</b>	
	<b>2014</b>	<b>2013</b>
Cash and short-term investments	11%	12%
Domestic equity	2	4
International equity	14	12
Fixed income	26	32
Commodities	1	1
Marketable and nonmarketable alternative funds	46	39
	<b>100%</b>	<b>100%</b>

The Plan assets were within authorized asset allocation ranges at June 30, 2014 and 2013.

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The following tables represent pension plan assets that are measured at fair value on a recurring basis at June 30, 2014 and 2013 (in thousands):

	<b>Fair value measurements at June 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. government securities	\$ 104,635	7,311	—	111,946
Corporate and foreign sovereign bonds and notes	29,485	296,838	—	326,323
Common and preferred stocks	298,485	51,339	—	349,824
Fund of hedge funds	—	—	57,835	57,835
Global macro hedge funds	—	—	90,500	90,500
Hedged equity funds	—	—	167,721	167,721
Multistrategy and other hedge funds	—	—	240,501	240,501
Buyout and growth equity funds	—	—	183,507	183,507
Distressed debt and turnaround funds	—	—	48,309	48,309
Private real estate funds	—	—	60,511	60,511
Venture capital funds	—	—	25,383	25,383
Other private market funds	—	—	105,411	105,411
Commodities	—	5,009	—	5,009
Derivative contracts	—	9,650	—	9,650
Money market and other	7,056	235,416	—	242,472
Equity interest in par annuity	—	—	76,391	76,391
Guaranteed accumulation fund	—	—	38,630	38,630
<b>Total</b>	<b>\$ 439,661</b>	<b>605,563</b>	<b>1,094,699</b>	<b>2,139,923</b>

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<b>Fair value measurements at June 30, 2013</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. government securities	\$ 116,293	43,677	—	159,970
Corporate and foreign sovereign bonds and notes	28,142	328,674	—	356,816
Common and preferred stocks	270,891	45,794	—	316,685
Fund of hedge funds	—	—	53,124	53,124
Global macro hedge funds	—	—	46,757	46,757
Hedged equity funds	—	—	145,939	145,939
Multistrategy and other hedge funds	—	—	181,661	181,661
Buyout and growth equity funds	—	—	148,879	148,879
Distressed debt and turnaround funds	—	—	40,385	40,385
Private real estate funds	—	—	65,175	65,175
Venture capital funds	—	—	22,268	22,268
Other private market funds	—	—	113,548	113,548
Commodities	—	8,900	—	8,900
Derivative contracts	—	(52,008)	—	(52,008)
Money market and other	7,074	232,748	—	239,822
Equity interest in par annuity	—	—	65,173	65,173
Guaranteed accumulation fund	—	—	43,230	43,230
<b>Total</b>	<b>\$ 422,400</b>	<b>607,785</b>	<b>926,139</b>	<b>1,956,324</b>

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### Notes to Consolidated Financial Statements

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The following tables presents the activity of the assets of the Organization's defined benefit plan for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2014 and 2013 (in thousands):

	Balance at <u>June 30, 2013</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized gains</u>	<u>Change in unrealized gains (losses)</u>	Balance at <u>June 30, 2014</u>
Fund of hedge funds	\$ 53,124	—	—	—	4,711	57,835
Global macro hedge funds	46,757	41,000	—	—	2,743	90,500
Hedged equity funds	145,939	—	—	—	21,782	167,721
Multistrategy and other hedge funds	181,661	101,816	(59,378)	2,033	14,369	240,501
Buyout and growth equity funds	148,879	18,474	(15,822)	4	31,972	183,507
Distressed debt and turnaround funds	40,385	18,258	(5,908)	—	(4,426)	48,309
Private real estate funds	65,175	6,194	(16,839)	—	5,981	60,511
Venture capital funds	22,268	2,473	(1,395)	—	2,037	25,383
Commodity sensitive private equity and infrastructure funds	113,548	12,006	(5,728)	—	(14,415)	105,411
Equity interests in par annuity	65,173	—	—	—	11,218	76,391
Guaranteed accumulation fund	43,230	—	—	—	(4,600)	38,630
	<u>\$ 926,139</u>	<u>200,221</u>	<u>(105,070)</u>	<u>2,037</u>	<u>71,372</u>	<u>1,094,699</u>

  

	Balance at <u>June 30, 2012</u>	<u>Purchases</u>	<u>Sales</u>	<u>Realized gains</u>	<u>Change in unrealized gains (losses)</u>	Balance at <u>June 30, 2013</u>
Fund of hedge funds	\$ 62,761	—	(16,698)	—	7,061	53,124
Global macro hedge funds	34,862	10,000	(398)	—	2,293	46,757
Hedged equity funds	151,372	—	(14,215)	9,122	(340)	145,939
Multistrategy and other hedge funds	80,576	161,461	(84,863)	1,047	23,440	181,661
Buyout and growth equity funds	139,142	23,604	(25,151)	11,145	139	148,879
Distressed debt and turnaround funds	51,140	6,258	(24,765)	950	6,802	40,385
Private real estate funds	61,807	8,260	(9,360)	2,838	1,630	65,175
Venture capital funds	24,432	1,580	(4,879)	3,820	(2,685)	22,268
Other private market funds	107,503	17,775	(15,863)	2,712	1,421	113,548
Equity interests in par annuity	48,804	—	—	—	16,369	65,173
Guaranteed accumulation fund	50,476	—	—	—	(7,246)	43,230
	<u>\$ 812,875</u>	<u>228,938</u>	<u>(196,192)</u>	<u>31,634</u>	<u>48,884</u>	<u>926,139</u>

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 or mitigate certain exposures. Each instrument's

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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.

The Plan uses interest rate swaps and swaptions to hedge interest rate exposure for a portion of its liabilities. The liabilities are valued via a "discount rate" of investment grade corporate bonds. Uncertainty of future discount rates adds variability to Plan valuations and future cash flows. Interest rate swap and swaption agreements are derivative instruments used by the Plan to mitigate these uncertainties. The interest rate swap and swaption agreements are required to be marked to fair value on a recurring basis.

Commodity swap agreements are derivatives instruments used by the Plan to gain exposure to various underlying commodity futures. The commodity swaps are required to be marked to fair value on a recurring basis.

The Plan uses equity options for both investment purposes and to hedge equity market exposure. The plan uses options for the Euro Stoxx 50 to gain European market exposure. The plan also uses equity collar strategies to hedge S&P 500 market risk. All equity options are marked to fair value on a recurring basis.

The following table lists the notional/contractual amount of derivatives by contract type included in pension plan asset at June 30, 2014 and 2013 (in thousands):

Derivative type	2014	2013
Interest rate contracts	\$ 1,515,000	1,645,000
Commodity contracts	46,800	52,000
Equity contracts	280,641	75,000
Tail risk contracts	—	320,000

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2014 and 2013 (in thousands):

Derivative type	Asset derivatives		Liability derivatives	
	2014	2013	2014	2013
Interest rate contracts	\$ 22,687	67,190	16,168	116,858
Commodity contracts	748	400	—	239
Equity contracts	3,223	—	92	2,726
Tail risk contracts	—	386	—	—
Fair value of derivatives included in pension plan assets	\$ 26,658	67,976	16,260	119,823

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The following table lists gains and losses on derivatives by contract type included in actual return on plan assets available for plan benefits as of June 30, 2014 and 2013 (in thousands):

<u>Derivative type</u>	<u>Realized gains/(losses)</u>		<u>Change in unrealized gains/(losses)</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Interest rate contracts	\$ (13,971)	(6,113)	56,053	(74,982)
Commodity contracts	115	(786)	587	(749)
Equity contracts	(11,208)	(6,786)	2,290	(1,461)
Tail risk contracts	(7,456)	(4,500)	7,070	(85)
	<u>\$ (32,520)</u>	<u>(18,185)</u>	<u>66,000</u>	<u>(77,277)</u>

For the valuation of the Plan's derivative contracts at June 30, 2014, 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.

**American National Red Cross Savings Plan – 401(k) Plan:** The Organization sponsors the American Red Cross Savings Plan (the Savings Plan), a defined contribution plan. In general, employees are eligible to participate upon hire and vest in employer contributions on a 3 year cliff schedule. Employer contributions include Red Cross Match, Points-Based Employer Contribution, and Annual Red Cross Contribution. There were \$71.4 million and \$58.8 million in Red Cross employer contributions to the Savings Plan in 2014 and 2013, respectively.

There were \$36.9 million and \$37.4 million in Red Cross match to the Savings Plan in 2014 and 2013 respectively.

Eligible employees impacted by the freeze of the Retirement System were credited with the annual Point-Based Employer Contribution (based on a participants' age and years of service as of June 30 each year) totaling \$27.4 million and \$15 million for the years ended June 30, 2014 and 2013, respectively.

Eligible employees not impacted by the freeze of the Retirement System were credited with the Annual Red Cross Contribution totaling \$7.1 million and \$6 million for the years ended June 30, 2014 and 2013, respectively.

For the 2014 calendar year, contribution limits were based on a maximum annual compensation of \$260,000. As of June 30, 2014, there were 20 investment options that an employee could choose from and a self-managed brokerage account option.

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#### (11) Receivables Securitization Program

The Organization has an asset securitization program. The program is structured to sell the eligible biomedical hospital account 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. Proceeds received under the securitization program are treated as secured borrowings. The maximum amount of the agreement is \$150 million and the total cost of the program approximates the 30 day Libor plus 1.35%. At June 30, 2014 and 2013, the amount of outstanding borrowings under the securitization program was \$128 million and \$134 million, respectively, and are included in other liabilities on the statement of financial position.

#### (12) Commitments and Contingencies

**Litigation:** The Organization is a defendant in a number of lawsuits incidental to its operations. 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 consolidated 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 consolidated financial statements.

#### (13) Subsequent Events

The Organization has evaluated subsequent events through the date the consolidated financial statements were issued, October 29, 2014.



## Schedule

## THE AMERICAN NATIONAL RED CROSS – Desert to the Sea Region

## Schedule of Operating Revenues and Expenses

Year ended June 30, 2014

Operating revenues and gains:	
Contributions:	
Corporate, foundation and individual giving	\$ 6,251,390
United Way and other federated	169,647
Legacies and bequests	575,266
Services and materials	9,600
Products and services	2,588,431
Contracts, including federal government	431,561
Investment income	86,696
Other revenues	232,903
Total operating revenues and gains	<u>10,345,494</u>
Operating expenses:	
Program services:	
Services to the Armed Forces	794,406
Community services	599,120
Domestic disaster services	2,935,111
Health and safety services	3,277,060
International relief and development services	76,293
National disaster relief & humanitarian services	425,773
Total program services	<u>8,107,763</u>
Supporting services:	
Fundraising	1,743,216
Management and general	494,515
Total supporting services	<u>2,237,731</u>
Total operating expenses	<u>10,345,494</u>
Excess of operating revenues and expenses	<u>\$ —</u>

See accompanying notes to supplemental schedule and independent auditors' report.

# THE AMERICAN NATIONAL RED CROSS

Notes to Supplemental Schedule

Year ended June 30, 2014

## (1) Summary of Significant Accounting Policies

### (a) *Basis of Presentation*

The American National Red Cross chapter network (the Network) has a core of approximately 500 chartered local chapters organized in 96 regional groupings. Each regional grouping services a specific geographical area. The accompanying Schedule of Operating Revenue and Expenses (Schedule) reflects program activities that have a day to day impact in the specific geographic area as well as support provided to national humanitarian services or other communities. Revenues reported exclude \$2,271,510 raised by the Desert to the Sea Region raised for use in disaster response and recovery needs of victims affected by Typhoon Haiyan, Superstorm Sandy, and the 2013 Oklahoma spring storms.

Program activities for regional operations include services to the Armed Forces, domestic disaster relief, activities in support of biomedical services, health and safety services, community services, and activities in support of international relief and development services. This schedule does not reflect the full operations of the biomedical services or the international relief and development operations, but rather the limited support activities associated with these two programs that are performed by chartered chapters. In addition, this schedule does not present the consolidated changes in operating revenues and expenses of the American National Red Cross and may not be indicative of the operating revenues and expenses that would have been achieved if the regional grouping operated as an unaffiliated organization.

The chartered chapters and regional groupings are managed as one network; funds are raised for the Network and are used where needed. At different times, certain chapters may generate more funds than needed or need more funds than generated. Accordingly, the Network works as a support function to ensure that each community has the necessary funds to support the American National Red Cross' programs that are vital to each community. Funds are always used according to the wishes of the donor. Additional funds are used to serve the needs of the community where they were raised; any excess is used to support needs in other communities and national disaster relief operations as well as the greater humanitarian effort across the Organization. Support from the Network received by chapters or regional groupings are reported as support from the American Red Cross network on the schedule. Excess amounts provided by the chapter or regional grouping are reported as national disaster relief and humanitarian services on the schedule.

The changes in operating revenues and expenses reported on the schedule do not include classifications of net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restriction.

**THE AMERICAN NATIONAL RED CROSS**

Notes to Supplemental Schedule

Year ended June 30, 2014

***(b) Allocation of Supporting Services Expenses***

Over the past several years the American National Red Cross has worked to provide a greater level of standardization and oversight, and has centralized certain support functions to make more local resources available to serve the mission. During fiscal year 2014, the American National Red Cross continued standardizing its methodology for allocating supporting services to each regional grouping in relation to the region's operating expenses net of national disaster relief and humanitarian services expenses. Accordingly, amounts presented in the accompanying schedules may not be comparable to amounts presented in prior years.