THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Governors
The American National Red Cross:

We have audited the accompanying consolidated statement of financial position of the American National Red Cross (American Red Cross) as of June 30, 2007, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the American Red Cross. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain chapters, which statements reflect total assets constituting 20 percent and total revenues and gains constituting 18 percent of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for such chapters, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the American Red Cross' 2006 consolidated financial statements and, in our report dated January 5, 2007, 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 American Red Cross' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Red Cross as of June 30, 2007, and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, the American Red Cross adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

KPMG LLP

October 16, 2007

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

A-2008-0015-FFM 31 October 2007

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 2007. In the auditor's opinion, the American Red Cross statements are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The Act of Congress that incorporated the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and Army Regulation 930-5 (American National Red Cross Service Program and Army Utilization), requires that U.S. Army Audit Agency 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 2007 consolidated financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our available resources, we reviewed the principal auditor's work and reports.

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

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

- Reviewed the principal auditor's approach and planning of the audit.
- Evaluated the qualifications and independence of the audit staff.
- Reviewed the consolidated financial statements and principal auditor's report to evaluate compliance with generally accepted accounting principles.

- Reviewed and tested the principal auditor's working papers to determine (i) the nature, timing, and extent of the audit work performed; (ii) the extent of audit quality control methods the auditor used; (iii) whether a study and evaluation was 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 American Red Cross consolidated financial statements present fairly, in all material respects, its financial position as of 30 June 2007 and the related statement of activities, functional expenses, and the changes in its net assets and cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

During our review we found nothing to indicate that KPMG LLP's opinion on the American Red Cross 2007 consolidated financial statements is inappropriate or cannot be relied on.

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

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

Patrick J. Fitzgerald

PATRICK J. FITZGERALD, CPA
The Auditor General

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2007
(with comparative information as of June 30, 2006)
(In thousands)

Assets	**2007**	**2006**
Current assets:		
Cash and cash equivalents	$ 211,240	$ 427,573
Investments (Notes 7 and 8)	1,088,021	1,104,975
Trade receivables, including grants, net of allowance for doubtful accounts of $4,274 in 2007 and $2,674 in 2006	104,981	133,748
Contributions receivable (Note 2)	94,532	97,121
Inventories, net of allowance for obsolescence of $2,630 in 2007 and $618 in 2006	152,666	121,831
Other current assets	20,505	17,608
Total current assets	1,671,945	1,902,856
Investments (Notes 7 and 8)	1,473,531	1,333,560
Contributions receivable (Note 2)	31,863	23,211
Land, buildings, and other property, net (Note 3)	1,205,898	1,165,790
Other assets (Note 8)	80,186	87,579
Total assets	4,463,423	4,512,996
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	369,884	416,299
Current portion of debt (Note 4)	136,400	42,127
Postretirement benefits (Note 9)	6,621	31,302
Other current liabilities (Notes 1 and 8)	27,789	24,960
Total current liabilities	540,694	514,688
Debt (Note 4)	353,338	389,023
Pension and postretirement benefits (Note 9)	228,001	306,448
Other liabilities (Notes 1 and 8)	117,087	117,274
Total liabilities	1,239,120	1,327,433
Net assets (Note 6):		
Unrestricted net assets	1,801,654	1,596,067
Temporarily restricted net assets	879,816	1,095,221
Permanently restricted net assets	542,833	494,275
Total net assets	3,224,303	3,185,563
Commitments and contingencies (Notes 4, 5, 7, and 12)		
Total liabilities and net assets	$ 4,463,423	$ 4,512,996

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2007
(with summarized information for the year ended June 30, 2006)
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2007	Totals 2006
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	$ 209,798	$ 111,929	$ -	$ 321,727	$ 2,645,044
United Way and other federated	58,441	100,070	-	158,511	162,300
Legacies and bequests	59,233	10,700	44,573	114,506	92,687
Services and materials	22,180	20,228	-	42,408	238,341
Grants	28,048	40,498	-	68,546	74,452
Products and services:					
Biomedical	2,071,781	-	-	2,071,781	2,165,172
Program materials	157,449	348	-	157,797	141,687
Contracts, including federal government	48,274	(138)	-	48,136	311,435
Investment income (Note 7)	133,274	2,389	-	135,663	109,979
Other revenues	56,166	-	-	56,166	67,528
Net assets released from restrictions	503,162	(503,162)	-	-	-
Total operating revenues and gains	3,347,806	(217,138)	44,573	3,175,241	6,008,625
Operating expenses:					
Program services:					
Armed Forces Emergency Services	55,219	-	-	55,219	54,096
Biomedical services (Note 12)	2,064,355	-	-	2,064,355	2,103,572
Community services	131,214	-	-	131,214	133,467
Domestic disaster services	442,439	-	-	442,439	2,630,766
Health and safety services	243,673	-	-	243,673	224,594
International relief and development services	142,272	-	-	142,272	154,283
Total program services	3,079,172	-	-	3,079,172	5,300,778
Supporting services:					
Fund raising (Note 11)	142,711	-	-	142,711	140,082
Management and general	229,411	-	-	229,411	187,249
Total supporting services	372,122	-	-	372,122	327,331
Total operating expenses	3,451,294	-	-	3,451,294	5,628,109
Change in net assets from operations	(103,488)	(217,138)	44,573	(276,053)	380,516
Nonoperating gains (Notes 4 and 7)	182,223	1,733	3,985	187,941	64,456
Additional minimum pension liability (Note 9)	-	-	-	-	94,470
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 9)	126,852	-	-	126,852	-
Change in net assets	205,587	(215,405)	48,558	38,740	539,442
Net assets, beginning of year	1,596,067	1,095,221	494,275	3,185,563	2,646,121
Net assets, end of year	$ 1,801,654	$ 879,816	$ 542,833	$ 3,224,303	$ 3,185,563

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Statement of Functional Expenses

Year ended June 30, 2007
(with summarized information for the year ended June 30, 2006)
(In thousands)

	Program Services						
	Armed Forces Emergency Services	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	Int'l Relief & Development Services	Total Program Services
Salaries and wages	$ 30,113	$ 863,229	$ 52,544	$ 103,281	$ 107,733	$ 19,794	$ 1,176,694
Employee benefits	8,262	249,246	13,920	28,181	27,967	5,709	333,285
Subtotal	38,375	1,112,475	66,464	131,462	135,700	25,503	1,509,979
Travel and maintenance	1,269	31,757	3,137	25,862	4,523	4,242	70,790
Equipment maintenance and rental	1,055	71,830	5,826	14,538	5,293	2,249	100,791
Supplies and materials	2,164	495,982	18,493	23,294	46,749	2,523	589,205
Contractual services (Note 5)	8,675	300,905	19,706	105,412	38,000	8,267	480,965
Financial and material assistance	1,952	3,410	12,046	128,070	4,201	99,174	248,853
Depreciation and amortization	1,729	47,996	5,542	13,801	9,207	314	78,589
Total expenses	$ 55,219	$ 2,064,355	$ 131,214	$ 442,439	$ 243,673	$ 142,272	$ 3,079,172

	Supporting Services			Total Expenses	
	Fund Raising	Management and General	Total Supporting Services	2007	2006
Salaries and wages	$ 52,117	$ 88,325	$ 140,442	$ 1,317,136	$ 1,284,395
Employee benefits	13,942	24,724	38,666	371,951	386,810
Subtotal	66,059	113,049	179,108	1,689,087	1,671,205
Travel and maintenance	3,419	6,698	10,117	80,907	158,433
Equipment maintenance and rental	1,801	4,223	6,024	106,815	148,922
Supplies and materials	19,254	3,473	22,727	611,932	585,683
Contractual services	40,009	84,425	124,434	605,399	726,994
Financial and material assistance	9,362	3,270	12,632	261,485	2,243,647
Depreciation and amortization	2,807	14,273	17,080	95,669	93,225
Total expenses	$ 142,711	$ 229,411	$ 372,122	$ 3,451,294	$ 5,628,109

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2007
(with comparative information for the year ended June 30, 2006)
(In thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 38,740	$ 539,442
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	95,669	93,225
Provision for doubtful accounts receivable	1,600	(3,307)
Provision for obsolete inventory	2,012	(73)
Net gain on sales of property	(33,980)	(53,738)
Net investment and derivative gains	(218,765)	(82,776)
Additional minimum pension liability	-	(94,470)
Effect of adoption of FASB Statement No. 158	(126,852)	-
Permanently restricted contributions	(44,573)	(23,412)
Changes in operating assets and liabilities:		
Receivables	21,104	126,300
Inventories	(32,847)	30,302
Other assets	4,496	(28,331)
Pension intangible asset	-	10,555
Accounts payable and accrued expenses	(46,415)	31,096
Other liabilities	2,938	24,030
Pension and postretirement benefits	23,724	43,310
Net cash (used in) provided by operating activities	(313,149)	612,153
Cash flows from investing activities:		
Purchases of property	(176,897)	(172,167)
Proceeds from sales of property	75,312	66,068
Purchases of investments	(209,897)	(743,001)
Proceeds from sales of investments	306,071	347,847
Net cash used in investing activities	(5,411)	(501,253)
Cash flows from financing activities:		
Permanently restricted contributions	43,851	20,694
Proceeds from borrowings	169,398	441,640
Repayments of debt	(111,022)	(438,220)
Net cash provided by financing activities	102,227	24,114
Net increase (decrease) in cash and cash equivalents	(216,333)	135,014
Cash and cash equivalents, beginning of year	427,573	292,559
Cash and cash equivalents, end of year	$ 211,240	$ 427,573
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 26,583	$ 21,729
Noncash investing and financing transactions:		
Acquisition of equipment under capital lease agreements	212	338
Donated stock and beneficial interest in perpetual trust	3,386	17,628

See accompanying notes to the consolidated financial statements.

(1) Summary of Significant Accounting Policies

Organization and Basis of Presentation: The American National Red Cross (the Organization or American Red Cross) 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 armed forces emergency services, 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, 2006, from which the summarized information was derived.

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

Cash Equivalents: The Organization considers all highly liquid investments purchased with an average maturity of three months or less to be cash equivalents. Cash equivalents consisted of money market mutual funds and overnight investments of approximately $55 million and $250 million as of June 30, 2007 and 2006, respectively.

Investments: Investments are reported at fair value. The separately managed endowment fund accumulates realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Governors. Amounts annually available for expenditure are based on the Board of Governors' approved spending rate used under the total-return method.

Investment income classified as operating revenue consists of interest and dividend income on investments and any gains approved for use in operations. All other realized and unrealized gains or losses are classified as nonoperating activity and are available to support operations in future years and to offset potential market declines.

Investments classified as current are available for operations in the next fiscal year.

Derivative Financial Instruments: The Organization makes limited use of derivative financial instruments for the purpose of managing interest rate risk. Derivative financial instruments are recorded at their fair value.

Fair Values of Financial Instruments: Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount which approximates fair value due to their short maturities. Investments are reported at fair value based on quoted market prices or, in the case of alternative investments, at estimated values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods. Management reviews and evaluates the values provided by the fund manager and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. Debt is valued at rates currently available to the Organization for issuances with similar terms and remaining maturities. Interest rate swap agreements are valued at the net present value of future

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cash flows attributable to the difference between the contractual variable and fixed rates in those agreements.

The estimated fair value of the Organization's noncurrent debt was as follows at June 30, 2007 and 2006 (in thousands):

	2007		**2006**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Noncurrent debt	$ 353,338	$ 352,671	$ 389,023	$ 391,444

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

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 Red Cross national headquarters under wills, trusts, and similar instruments which do not direct some other use of such funds are recorded as permanently restricted endowment funds to be kept and invested as such in perpetuity. Based upon the manner in which the Organization has solicited and continues to solicit such gifts, it has been determined by independent legal counsel that such gifts must be placed in the endowment fund and, accordingly, reported as permanently restricted net assets.

The Organization makes distributions from income earned on the endowment fund for current operations using the total return method. Under the total return method, distributions consist of net investment income and may, under certain conditions, include a portion of the cumulative realized 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 5 percent of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately $27 million in each year for the years ended June 30, 2007 and 2006. Approximately $12 million and $13 million represented utilization of accumulated realized gains for the years ended June 30, 2007 and 2006, respectively.

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

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

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

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

Class of property	Useful life in years
Buildings	45
Building improvements	10
Equipment and software	3-15

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 $91 million and $90 million at June 30, 2007 and 2006, 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 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.

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Products and services revenue, which arises principally from sales of whole blood and components and health and safety course fees, is generally recognized upon delivery of the product or services to the customer.

Revenues from federal agencies are generally reported as unrestricted contract revenue as qualifying expenses are incurred under the agreement.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributed Services and Materials: Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets, or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Organization recorded contributed services revenue for the years ended June 30, 2007 and 2006 of approximately $13 million and $142 million, respectively, mostly in support of the disaster services program.

Donated materials are recorded at their fair value at the date of the gift. The Organization does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

Research and Development Costs: Since 1956, the Organization has engaged in blood research to further enhance the safety of the blood supply. For the years ended June 30, 2007 and 2006, research and development expenses incurred by Biomedical Services were approximately $7 million and $11 million, respectively.

Income Taxes: The American 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.

Accounts Receivable Securitization: The Organization has an accounts receivable securitization program whereby the Organization sells receivables in securitization transactions and retains a subordinated interest and servicing rights to those receivables. The Organization accounts for the program under Financial Accounting Standards Board (FASB) Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS 140). The gain or loss on sales of receivables is determined at the date of transfer based upon the relative fair value of the assets sold and the interests retained. The Organization estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, including collection period and discount rates. See Note 10.

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

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2007 and 2006 (in thousands):

	2007	2006
Amount receivable within one year	$ 96,080	$ 98,962
Amount receivable in 1 to 5 years (net discount of $5,494 and $4,116 for 2007 and 2006, respectively)	31,863	23,211
Total contributions receivable before allowance for uncollectible amounts	127,943	122,173
Less allowance for uncollectible amounts	(1,548)	(1,841)
Contributions receivable, net	126,395	120,332
Less current portion	(94,532)	(97,121)
Contributions receivable, net, noncurrent	$ 31,863	$ 23,211

Amounts presented above have been discounted to present value using rates averaging approximately 3 percent. The Organization had commitments from donors for conditional contributions approximating $4 million and $3 million at June 30, 2007 and 2006, respectively. These pledges will be accrued in future periods as the conditions are met.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2007 and 2006 (in thousands):

	2007	2006
Land	$ 103,661	$ 102,646
Buildings and improvements	1,042,974	1,008,861
Equipment and software	750,735	727,168
Buildings and equipment under capital lease	65,145	27,250
Total cost of assets placed in service	1,962,515	1,865,925
Less accumulated depreciation and amortization	(912,801)	(881,668)
Construction-in-progress	156,184	181,533
Land, buildings, and other property, net	$ 1,205,898	$ 1,165,790

(4) Debt

Debt consists of the following at June 30, 2007 and 2006 (in thousands):

	2007	2006
Borrowings on lines of credit, due in 2008 through 2010, bearing interest at various rates averaging 5.46% in 2007 and 4.15% in 2006	$ 115,000	$ 20,000
Various notes, mortgages and bonds payable, bearing interest at rates ranging from 3.4% to 7.8% due 2008 through 2031, repayment terms generally require monthly payments of interest and annual principal reductions, and are generally backed only by the full faith and credit of the American Red Cross	370,343	405,996
Total bonds and notes payable	485,343	425,996
Obligations under capital leases (Note 5)	4,395	5,154
Total debt	489,738	431,150
Less current portion	(136,400)	(42,127)
Debt, noncurrent portion	$ 353,338	$ 389,023

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Certain bonds are subject to redemption prior to maturity at the option of the Organization. Additionally, registered owners of these bonds may demand repurchase of the bonds by the bond agent or the depository for an amount equal to the principal price plus accrued interest. Letters of credit or standby credit facilities have been established with multiple banks in the aggregate amount of $271 million and $238 million as of June 30, 2007 and 2006, respectively, to provide liquidity in the event other funding is not available to repurchase these bonds. The depository and bond agent have the authority to use standby credit facilities for the repurchase of certain bonds.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2007 are as follows (in thousands):

Years ending June 30:		
2008	$	136,400
2009		23,140
2010		17,472
2011		17,774
2012		17,290
Thereafter		277,662
Total	$	489,738

Interest expense was approximately $26 million and $21 million for the years ended June 30, 2007 and 2006, respectively, which is included in contractual services on the statement of functional expenses.

Bank Lines of Credit: The Organization maintained numerous committed and uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2007 and 2006, $115 million and $20 million respectively had been borrowed under lines of credit to support operations. The Organization had unused lines of credit outstanding of approximately $365 million at June 30, 2007.

Interest Rate Swap Agreements: 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 Organization held variable rate debt of approximately $266 million and $268 million at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the aggregate notional principal amount under the interest rate swap agreements, which matures in 2008, totaled $47 million. At June 30, 2007 and 2006, the estimated fair value of the interest rate swap agreements was a liability of approximately $1 million each year.

The Organization applies the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard requires certain derivative financial instruments to be recorded at fair value. The interest rate swap agreements described above are derivative instruments that are required to be recorded at fair value. The change in fair value on these interest rate swap

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agreements for the years ended June 30, 2007 and June 30, 2006 was a gain of approximately $0.3 million and $1 million, respectively, and is included as a nonoperating gain in the consolidated statement of activities.

Letters of Credit: The Organization had unused letters of credit outstanding of approximately $57 million at June 30, 2007.

(5) Leases

The Organization leases certain buildings and equipment for use in its operations. The following summarizes as of June 30, 2007, minimum future rental payments under capital and noncancelable operating leases for the fiscal years ending June 30 (in thousands):

	Operating	Capital
2008	$ 38,372	$ 1,849
2009	27,459	1,276
2010	20,542	826
2011	15,347	689
2012	11,031	142
Thereafter	18,302	32
Total minimum lease payments	$ 131,053	4,814
Less amounts representing interest		(419)
Present value of net minimum lease payments (Note 4)		$ 4,395

Total rent expense was approximately $69 million and $84 million for the years ended June 30, 2007 and 2006, respectively, and is included in contractual services on the statement of functional expenses.

(6) Net Assets

Unrestricted net assets consisted of the following at June 30, 2007 and 2006 (in thousands):

	2007	2006
Designated for the following purposes:		
Biomedical services	$ 392,697	$ 416,395
Endowment inflation adjustment reserve	124,900	113,200
Endowment distribution reserve	70,500	48,800
Funds functioning as endowment	250,943	273,286
Fund for retiree health care premium subsidies	121,263	107,585
Replacement and improvement of buildings and equipment	154,504	135,279
Contingencies and other purposes	191,796	206,539
Undesignated	495,051	294,983
Total unrestricted net assets	$ 1,801,654	$ 1,596,067

At June 30, 2007 and 2006, respectively, $195 million and $162 million of cumulative net realized gains on endowed investments were reported as unrestricted net assets. Of these amounts, as of June 30, 2007 and 2006, respectively, approximately $125 million and $113 million have been designated by the Board of Governors as an inflation adjustment reserve to protect donor corpus. This reserve increases each year at a rate equal to 100 percent of the increase in the Consumer Price Index applied against the book value of the original donor corpus. The remaining $71 million and $49 million as of June 30, 2007 and 2006, respectively, were designated as a distribution reserve to provide funds for operations in those years when net interest and dividends are less than the approved distribution rate.

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Temporarily restricted net assets are available for the following purposes or periods at June 30, 2007 and 2006 (in thousands):

	2007	2006
Disaster services	$ 132,982	$ 208,169
Hurricanes Katrina, Rita & Wilma Disaster Relief	220,327	243,721
Liberty disaster relief - September 11 response	11,703	46,462
Biomedical services	9,119	8,127
Health and safety services	2,701	3,189
International services	32,576	37,138
Tsunami relief and recovery	298,167	385,491
Community services	11,570	12,427
Buildings and equipment	24,581	20,999
Other specific purposes	43,734	39,772
For use in future periods	92,356	89,726
Total temporarily restricted net assets	$ 879,816	$ 1,095,221

As a result of Hurricanes Katrina, Rita and Wilma, that hit the gulf coast in August, September, and October 2005, the Organization received monetary donations, in-kind donations, and FEMA reimbursements through the end of fiscal year 2007 totaling approximately $2.6 billion. The Organization has provided approximately $2.4 billion in immediate and long term recovery efforts for these hurricanes. The remaining net asset balance of approximately $220 million will be devoted primarily to long-term recovery needs of the local communities in the wake of these storms.

On December 26, 2004, a 9.0 magnitude earthquake hit off the coast of Indonesia causing a large tsunami and unprecedented damage to over 12 countries. As a result of the generous support of the American public, the Organization has received over $581 million of donations for the Tsunami Relief and Recovery Fund. As of June 30, 2007 the Organization has provided approximately $283 million towards immediate assistance and initial recovery efforts. The remaining net asset balance of approximately $298 million will continue to be used for long-term tsunami recovery efforts in the following six service delivery areas: water and sanitation, psychosocial support, health, shelter, livelihoods and disaster preparedness.

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

(7) Investments

The following schedule summarizes the composition of investment income for the years ended June 30, 2007 and 2006 (in thousands):

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

	2006			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest	$ 87,949	$ 1,107	$ —	$ 89,056
Net operating investment gains	20,621	302	—	20,923
Investment income available for operations	108,570	1,409	—	109,979
Net nonoperating investment gains	59,607	856	796	61,259
Total return on investments	$ 168,177	$ 2,265	$ 796	$ 171,238

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The fair value of investments was as follows at June 30, 2007 and 2006 (in thousands):

	2007	2006
U.S. Government securities	$ 397,860	$ 317,806
Corporate bonds and notes	536,216	151,845
Common and preferred stocks	709,751	525,277
Mortgage and asset backed securities	82,086	121,029
Marketable and nonmarketable alternative funds	272,980	228,183
Money market and other	562,659	1,094,395
Total investments	2,561,552	2,438,535
Less current portion	(1,088,021)	(1,104,975)
Investments, noncurrent	$ 1,473,531	$ 1,333,560

As of June 30, 2007 and 2006, respectively, the Organization held approximately $273 million and $228 million of alternative investments for which the fair value has been estimated by the fund managers or general partners in the absence of readily ascertainable fair values as of that date. These investments include absolute return or hedge funds, limited partnership funds, and common and collective trust funds.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of June 30, 2007. 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.

(8) 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 $184 million in assets under these agreements, which are included in investments and other assets on the statement of financial position, $48 million are charitable gift annuities and the remainder are assets for which the Organization is not the trustee. Liabilities associated with the charitable gift annuities are $21 million, of which $4 million is included with other current liabilities and $17 million is included with other noncurrent liabilities on the statement of financial position.

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(9) Benefit Plans

Pension and Postretirement Plans: Employees of the American Red Cross, including participating local chapters, are covered by the Retirement System of the American National Red Cross (the Plan) after one year of employment.

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a pension funded entirely by the employer. Voluntary contributions may be made by active members to fund an additional, optional annuity benefit. Defined benefits are based on years of service and the employee's final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months of service before retirement.

The Organization's funding policy was to set the employer contribution rate at a percentage of covered payroll that is intended to fund toward a target range of not less than 115 percent and no more than 120 percent of the projected unit credit accrued liability. To the extent that the current funding is more or less than the target's upper bound, the difference is amortized over ten years in calculating the contribution rate. During fiscal years 2007 and 2006, the Organization contributed 4.25 percent of covered payroll to the Retirement System.

The Organization has investment guidelines for Plan assets. The overall objective of the guidelines is to ensure the Plan assets provide capital growth over an extended period of time, while also considering market risks and ensuring that the portfolio income and liquidity are appropriate to meet the Plan benefit payments and other expenses. The Plan investments are required to be diversified by asset class and within each asset class, in order to ensure that no single investment will have a disproportionate impact on the total portfolio. The Plan asset allocation is reviewed each year with current market assumptions to ensure the asset mix will achieve the long-term goals of the Plan. The Plan assets were invested in the following categories at June 30, 2007 and 2006:

	Pension Assets	
	2007	**2006**
Cash and short-term investments	3%	3%
Domestic equity	38%	41%
International equity	23%	24%
Fixed income deflation hedge	18%	15%
Inflation hedge	5%	8%
Marketable and nonmarketable alternative funds	13%	9%
	100%	100%

The Plan assets were within authorized asset allocation ranges at June 30, 2007 and 2006.

The Organization also provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and the Organization each pay a portion of the premium costs. The medical and dental plans pay a stated percentage of expenses reduced by deductibles and other coverages. The Organization has the right to modify cost-sharing provisions at any time. In addition, life insurance benefits of $5,000 are provided with no contributions required from the retirees.

The American Red Cross postretirement benefit plans are unfunded. However, as discussed in Note 6, the Board of Governors has designated $121 million of unrestricted net assets to fund a portion of premiums for retirees' postretirement medical benefits.

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The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the consolidated statements of financial position for the years ended June 30, 2007 and 2006 (in thousands):

	Pension benefits		Postretirement benefits	
	2007	**2006**	**2007**	**2006**
Changes in benefit obligations				
Benefit obligations at beginning of year	$ 1,688,462	$ 1,811,549	$ 214,436	$ 241,268
Service cost	47,628	55,060	12,986	16,785
Interest cost	106,786	96,762	13,217	12,499
Plan participants’ contributions	—	20	—	—
Actuarial (gain) loss	23,039	(225,762)	416	(49,268)
Benefits paid	(52,384)	(49,167)	(7,046)	(6,848)
Benefit obligations at end of year	$ 1,813,531	$ 1,688,462	$ 234,009	$ 214,436
Changes in plan assets				
Fair value of plan assets at beginning of year	$ 1,529,776	$ 1,374,385	$ —	$ —
Actual return on plan assets	289,960	159,134	—	—
Employer contributions	45,566	45,404	—	—
Plan participants' contributions	—	20	—	—
Benefits paid	(52,384)	(49,167)		—
Fair value of plan assets at end of year	$ 1,812,918	$ 1,529,776	$ —	$ —
Accrued benefit costs				
Funded status	$ (613)	$ (158,686)	$ (234,009)	$ (214,436)
Unrecognized net actuarial loss	—	21,351	—	20,136
Unrecognized prior service cost	—	8,472	—	(14,587)
Additional minimum liability	—	—	—	—
Accrued benefit costs	$ (613)	$ (128,863)	$ (234,009)	$ (208,887)

In September 2006, the FASB issued SFAS No. 158 *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,* (SFAS No. 158) which amends SFAS No. 87 *Employers’ Accounting for Pensions* (SFAS No. 87) and SFAS No. 106 *Employers’ Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106). This Statement requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. The recognition of an asset and liability related to the funded status provision is effective for fiscal years ending after June 15, 2007. The Organization adopted the recognition of the funded status provisions of SFAS No. 158 at June 30, 2007.

The incremental effect of applying SFAS No. 158 on the Organization's financial position as of June 30, 2007 was as follows (in thousands):

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Long term pension and postretirement benefits liability	$ 354,853	$ (126,852)	$ 228,001
Total liabilities	1,365,972	(126,852)	1,239,120
Unrestricted net assets	1,674,802	126,852	1,801,654
Total net assets	3,097,451	126,852	3,224,303

Items not yet recognized as a component of net periodic benefit cost which are reported as effect of adoption of recognition provisions of FASB Statement No. 158 in 2007 are as follows (in thousands):

	Pension Benefits 2007	Postretirement Benefits 2007	Total
Prior service (cost) credit	$ (6,389)	$ 13,371	$ 6,982
Net actuarial gain (loss)	140,422	(20,552)	119,870
Total cumulative effect of accounting change	$ 134,033	$ (7,181)	$ 126,852

Estimated amounts to be amortized into net periodic benefit cost over the next fiscal year relate to prior service costs and are $2 million and $1.2 million for the pension plan and postretirement benefits plan, respectively.

At June 30, 2006, the value of Plan assets was sufficient such that no additional minimum liability was required, and the effects of the prior year adjustments were reversed, resulting in a minimum pension liability adjustment of approximately $94 million, recorded as a non-operating gain on the consolidated statement of activities.

The accumulated benefit obligation for the pension plan was approximately $1.6 billion and $1.5 billion as of June 30, 2007 and 2006, respectively.

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Significant assumptions used in accounting for the plans as of and for the year ended June 30, 2007 and 2006 were:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on plan assets	7.50%	7.50%		
Rate of compensation increase	5.00%	5.00%		

The expected rate of return assumption on Plan assets was determined by considering current economic and market conditions and by reviewing asset class allocations, historical return analysis and forward looking capital market expectations. Asset class allocations were established by considering each class' risk premium commensurate for the level of risk, duration that matches the Plan's liabilities, and incremental diversification benefits. Historical returns and forward looking capital market expectations were gathered from, and compared among the Plan's investment managers, and a sampling of the consultant community.

For measurement purposes, a 9 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2008. The rate was assumed to decrease gradually to 6.3 percent for 2010 and remain at that level thereafter.

The components of net periodic benefit cost for the years ended June 30, 2007 and 2006 were (in thousands):

	Pension benefits		Postretirement benefits	
	2007	2006	2007	2006
Service cost	$ 47,628	$ 55,060	$ 12,986	$ 16,785
Interest cost	106,786	96,762	13,217	12,499
Expected return on plan assets	(105,148)	(99,075)	—	—
Amortization of prior service cost	2,083	2,083	(1,216)	(1,216)
Recognition of actuarial loss	—	19,985	—	3,234
Net periodic benefit cost	$ 51,349	$ 74,815	$ 24,987	$ 31,302

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	$ 319	$ (247)
Effect on postretirement benefit obligation	2,451	(1,980)

The Organization expects to contribute approximately $51 million to its pension plan and $7 million to its postretirement benefit plan during the year ended June 30, 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, as of June 30, 2007 (in thousands):

	Pension Benefits	Postretirement Benefits
2008	$ 62,212	$ 6,651
2009	70,436	6,998
2010	78,954	7,416
2011	87,876	7,897
2012	97,007	8,478
2013 - 2017	623,762	62,646
	$ 1,020,247	$ 100,086

American Red Cross Savings Plan – 401(k) Plan: The Organization participates in the American Red Cross Savings Plan (the Savings Plan), a defined contribution plan. Employees are eligible to participate upon hire. Vesting is immediate if hired on or before July 1, 2005; 3 years if hired after July 1, 2005. The American Red Cross matches 100 percent of the first 4 percent of annual compensation contributed by the participant. For the 2006 calendar year, contribution limits were based on a maximum annual compensation of $220,000. There are 18 investment options that an employee can choose from as well as a self-managed brokerage account. The Organization contributed approximately $30 million and $27 million to the Savings Plan for fiscal years 2007 and 2006, respectively.

(10) Receivables Securitization Program

In August 2005, the Organization initiated a $100 million program to sell (securitize), on a revolving basis, certain biomedical hospital accounts receivable, while retaining a subordinated interest in a portion of the receivables. In March 2007, the securitized receivable amount was increased to $120 million. The eligible receivables are sold, without legal recourse, to a third party conduit through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables.

The program qualifies for sale treatment under SFAS 140. As of June 30, 2007, the outstanding balance of securitized accounts receivable held by the third party conduit was approximately $160 million of which the Organization's subordinated retained interest was approximately $40 million. Accordingly, $120 million and $97 million of accounts receivable balances, net of applicable allowances, were removed from the statement of financial position as of June 30, 2007 and 2006, respectively. Expenses associated with the program totaled approximately $6 million and $3 million for the years ended June 30, 2007 and 2006, respectively.

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

(11) Joint Costs

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

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

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