KPMG

THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2012

(With Independent Auditors' Report Thereon)

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 statement of financial position of The American National Red Cross (the Organization) as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 consolidated financial statements and, in our report dated October 26, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The American National Red Cross as of June 30, 2012, and the changes in their net assets, their functional expenses and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 25, 2012

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2012
(with comparative information as of June 30, 2011)
(In thousands)

Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 52,905	$ 372,662
Investments (Note 8)	626,872	695,856
Trade receivables, including grants, net of allowance for doubtful accounts of $5,657 in 2012 and $3,818 in 2011 (Note 11)	216,517	222,430
Contributions receivable (Note 2)	70,011	66,977
Inventories, net of allowance for obsolescence of $4,105 in 2012 and $1,382 in 2011	113,876	126,382
Collateral under securities loaned agreements (Note 8)	-	110,943
Other current assets	24,922	28,901
Total current assets	1,105,103	1,624,151
Investments (Note 8)	1,356,851	1,309,580
Contributions receivable (Note 2)	16,030	14,134
Land, buildings, and other property, net (Note 3)	1,050,793	1,077,945
Other assets (Note 9)	249,184	227,771
Total assets	3,777,961	4,253,581
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	281,012	333,223
Current portion of debt (Note 4)	14,400	14,418
Postretirement benefits (Note 10)	3,991	4,147
Payables under securities loaned agreements (Note 8)	-	110,943
Other current liabilities (Note 9 and 11)	164,121	185,134
Total current liabilities	463,524	647,865
Debt (Note 4)	538,958	558,963
Pension and postretirement benefits (Note 10 and 13)	1,001,636	667,987
Other liabilities (Notes 4 and 9)	178,620	186,843
Total liabilities	2,182,738	2,061,658
Net assets (Notes 6 and 7):		
Unrestricted net assets	133,687	655,029
Temporarily restricted net assets	757,513	871,126
Permanently restricted net assets	704,023	665,768
Total net assets	1,595,223	2,191,923
Commitments and contingencies (Notes 4, 5, 10, 11, and 12)		
Total liabilities and net assets	$ 3,777,961	$ 4,253,581

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011)
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2012	Totals 2011
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	$ 224,373	$ 213,395	$ -	$ 437,768	$ 685,947
United Way and other federated	31,024	69,203	-	100,227	111,273
Legacies and bequests	51,359	8,522	34,748	94,629	81,548
Services and materials	18,537	18,887	-	37,424	35,272
Products and services:					
Biomedical	2,153,870	-	-	2,153,870	2,189,663
Program materials	136,876	-	-	136,876	139,222
Contracts, including federal government	82,552	-	-	82,552	112,804
Investment income (Note 8)	27,098	31,002	-	58,100	49,584
Other revenues	63,628	5,443	-	69,071	65,222
Net assets released from restrictions	438,468	(438,468)	-	-	-
Total operating revenues and gains	3,227,785	(92,016)	34,748	3,170,517	3,470,535
Operating expenses:					
Program services:					
Services to the Armed Forces	53,045	-	-	53,045	57,403
Biomedical services (Note 12)	2,239,784	-	-	2,239,784	2,195,108
Community services	77,538	-	-	77,538	90,558
Domestic disaster services	279,190	-	-	279,190	282,974
Health and safety services	195,596	-	-	195,596	203,735
International relief and development services	186,726	-	-	186,726	340,106
Total program services	3,031,879	-	-	3,031,879	3,169,884
Supporting services:					
Fund raising	172,407	-	-	172,407	127,019
Management and general	140,847	-	-	140,847	142,682
Total supporting services	313,254	-	-	313,254	269,701
Total operating expenses	3,345,133	-	-	3,345,133	3,439,585
Change in net assets from operations	(117,348)	(92,016)	34,748	(174,616)	30,950
Nonoperating gains(losses) (Notes 4 and 8)	(18,424)	(21,597)	3,507	(36,514)	193,157
Pension-related changes other than net periodic benefit cost (Note 10)	(385,570)	-	-	(385,570)	8,929
Change in net assets	(521,342)	(113,613)	38,255	(596,700)	233,036
Net assets, beginning of year	655,029	871,126	665,768	2,191,923	1,958,887
Net assets, end of year	$ 133,687	$ 757,513	$ 704,023	$ 1,595,223	$ 2,191,923

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Statement of Functional Expenses

Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011)
(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	$ 24,148	$ 956,421	$ 24,403	$ 79,119	$ 75,887	$ 18,244	$ 1,178,222
Employee benefits	7,279	288,293	7,356	23,849	22,875	5,499	355,151
Subtotal	31,427	1,244,714	31,759	102,968	98,762	23,743	1,533,373
Travel and maintenance	1,343	36,729	894	20,065	4,909	2,769	66,709
Equipment maintenance and rental	789	77,828	4,994	11,656	1,806	1,904	98,977
Supplies and materials	2,439	500,417	12,984	5,770	14,819	567	536,996
Contractual services	15,425	334,003	11,719	55,415	63,766	10,140	490,468
Financial and material assistance	789	1,660	11,309	63,931	6,439	146,819	230,947
Depreciation and amortization	833	44,433	3,879	19,385	5,095	784	74,409
Total expenses	$ 53,045	$ 2,239,784	$ 77,538	$ 279,190	$ 195,596	$ 186,726	$ 3,031,879

	Supporting Services			Total Expenses	
	Fund Raising	**Management and General**	**Total Supporting Services**	**2012**	**2011**
Salaries and wages	$ 70,797	$ 79,098	$ 149,895	$ 1,328,117	$ 1,352,604
Employee benefits	21,340	23,843	45,183	400,334	346,203
Subtotal	92,137	102,941	195,078	1,728,451	1,698,807
Travel and maintenance	5,439	2,940	8,379	75,088	61,798
Equipment maintenance and rental	1,193	3,992	5,185	104,162	100,101
Supplies and materials	4,308	388	4,696	541,692	573,280
Contractual services	64,023	27,911	91,934	582,402	518,046
Financial and material assistance	2,710	756	3,466	234,413	404,222
Depreciation and amortization	2,597	1,919	4,516	78,925	83,331
Total expenses	$ 172,407	$ 140,847	$ 313,254	$ 3,345,133	$ 3,439,585

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2012
(with comparative information for the year ended June 30, 2011)
(In thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (596,700)	$ 233,036
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	78,925	83,331
Provision for doubtful accounts receivable	2,954	1,252
Provision for obsolete inventory	2,930	(495)
Net gain on sales of property	(938)	(2,699)
Net investment and derivative (gain)/loss	24,784	(192,075)
Pension-related changes other than net periodic benefit cost	385,570	(8,929)
Permanently restricted contributions	(34,748)	(22,032)
Changes in operating assets and liabilities:		
Receivables	(1,971)	(123,257)
Inventories	9,576	3,869
Other assets	(17,434)	(78,999)
Accounts payable and accrued expenses	(52,211)	(37,821)
Other liabilities	(35,949)	192,930
Pension and postretirement benefits	(52,077)	(81,229)
Net cash used in operating activities	(287,289)	(33,118)
Cash flows from investing activities:		
Purchases of property	(55,299)	(74,452)
Proceeds from sales of property	4,464	6,407
Purchases of investments	(277,416)	(158,583)
Proceeds from sales of investments	281,058	222,948
Net cash used in investing activities	(47,193)	(3,680)
Cash flows from financing activities:		
Permanently restricted contributions	34,748	20,932
Proceeds from borrowings	-	20,109
Repayments of debt	(20,023)	(38,785)
Net cash provided by financing activities	14,725	2,256
Net decrease in cash and cash equivalents	(319,757)	(34,542)
Cash and cash equivalents, beginning of year	372,662	407,204
Cash and cash equivalents, end of year	$ 52,905	$ 372,662
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 18,590	$ 21,342
Noncash investing and financing transactions:		
Donated stock and beneficial interest in perpetual trust	4,267	1,499

See accompanying notes to the consolidated financial statements.

(1) Summary of Significant Accounting Policies

Organization and Basis of Presentation: The American National Red Cross (the Organization) was established by an Act of the United States Congress on January 5, 1905 for the primary purposes of furnishing volunteer aid to the sick and wounded of the Armed Forces in time of war and to carry on a system of national and international relief in time of peace to mitigate the suffering caused by fire, famine, floods and other great natural calamities. The mission of the Organization has expanded since that time to help people prevent, prepare for, and respond to emergencies.

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets and cash flows of the Organization. The Organization has national and international programs that are conducted by its headquarters, biomedical services, and chartered local chapters. Also included in the consolidated financial statements are the net assets and operations of Boardman Indemnity Ltd., a 100 percent owned captive insurance subsidiary, and ARC Receivables Company, LLC, a wholly owned bankruptcy-remote special purpose entity. All significant intra-organizational accounts and transactions have been eliminated.

Program activities include services to the Armed Forces, biomedical services, community services, disaster services, health and safety services, and international services. Biomedical services includes activities associated with the collection, processing, testing, and distribution of whole blood and components at 36 local blood services region operations, five national testing laboratories, a biomedical research facility, and related national support functions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

The consolidated financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2011 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 original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and overnight investments of approximately $17 million and $219 million as of June 30, 2012 and 2011, respectively.

Investments: Investments are reported at fair value except for certain commingled funds and alternative funds that, as a practical expedient, and in accordance with ASC 820-10-35-59, are reported at estimated fair value utilizing net asset values. Net asset value, in many instances may not equal the fair value that would be calculated pursuant to ASC 820. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2012. The Organization reviews and evaluates the net asset values provided by the general partners and fund managers and agrees with the valuation methods and assumptions used in determining net asset values of these funds. The separately managed endowment fund accumulates realized gains and losses on security transactions, which are available to meet current expenses to the extent approved by the Board of Governors. Amounts annually available for expenditure are based on the Board of Governors' approved spending rate using the total-return method.

Investment income classified as operating revenue consists of interest and dividend income on investments and any gains approved for use in operations (note 8). All other realized and unrealized gains or losses are classified as nonoperating activity and are available to support operations in future years and to offset potential market declines.

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

Derivative Financial Instruments: The Organization makes limited use of derivative financial instruments in order to mitigate certain risks. Derivative financial instruments are recorded at 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 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.

(Continued)

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

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

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

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

Long-Lived Assets: Long-lived assets, such as property, plant, and equipment, 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 $113 million and $117 million as of June 30, 2012 and 2011, respectively.

Revenue Recognition: Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

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

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

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

Contributed Services and Materials*:* Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Organization recorded contributed services revenue and related expense for the years ended June 30, 2012 and 2011 of approximately $8 million and $11 million, respectively, mostly in support of the disaster services program.

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

Income Taxes*:* The American National Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. For the years ended June 30, 2012 and 2011, 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, 2012 and 2011 (in thousands):

		2012	2011
Amounts receivable within one year	$	71,778	68,640
Amounts receivable in 1 to 5 years (net of discount of $843 and $1,720 for 2012 and 2011, respectively)		16,030	14,134
Total contributions receivable before allowance for uncollectible amounts		87,808	82,774
Less allowance for uncollectible amounts		(1,767)	(1,663)
Contributions receivable, net		86,041	81,111
Less current portion		70,011	66,977
Contributions receivable, net, noncurrent	$	16,030	14,134

Amounts presented above have been discounted to present value using various discount rates between 0.31 and 5.12 percent.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2012 and 2011 (in thousands):

		2012	2011
Land	$	119,391	120,320
Buildings and improvements		1,157,229	1,166,873
Equipment and software		583,705	618,003
Buildings and equipment under capital lease		3,762	4,850
Total cost of assets placed in service		1,864,087	1,910,046
Less accumulated depreciation and amortization		(949,336)	(935,582)
Construction-in-progress		136,042	103,481
Land, buildings, and other property, net	$	1,050,793	1,077,945

(4) Debt

Debt consists of the following at June 30, 2012 and 2011 (in thousands):

		2012	2011
Fixed rate debt:			
Bearing interest rates ranging from 3.5% to 5.85%, due 2013 through 2036	$	291,342	299,309
Variable rate debt:			
Bearing interest rates ranging from 0.02% to 0.96%, due 2013 through 2036			
Variable rate debt with demand repayment rights		201,741	206,738
Variable rate debt without demand repayment rights		60,000	66,773
Total bonds and notes payable		553,083	572,820
Obligations under capital leases (note 5)		275	561
Total debt		553,358	573,381
Less current portion		14,400	14,418
Debt, noncurrent portion	$	538,958	558,963

The Organization's debt is generally backed only by the full faith and credit of The American National Red Cross. Certain bonds are subject to redemption prior to the maturity at the option of the Organization. The repayment terms of the variable rate debt generally require monthly payments of interest and annual principal reduction. The registered owners of the bonds and notes with demand repayment rights may demand repurchase of the bonds and notes for an amount equal to the principal plus accrued interest. Letters of credit or standby credit facilities have been established with multiple banks in the aggregate amount of $220 million for both years 2012 and 2011, to provide liquidity in the event other funding is not available for repurchasing. The maturity dates for these liquidity facilities are from 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.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2012 are as follows (in thousands):

2013	$	14,400
2014		18,238
2015		18,500
2016		17,179
2017		31,666
Thereafter		453,375
Total	$	553,358

The estimated fair value of the Organization's noncurrent debt was as follows at June 30, 2012 and 2011 (in thousands):

	2012		2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Noncurrent debt	$ 538,958	596,275	558,963	582,467

Interest expense was approximately $26 million and $27 million for the years ended June 30, 2012 and 2011, respectively, which is included in contractual services on the statement of functional expenses.

Bank Lines of Credit: The Organization maintained several committed and uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2012 and 2011, there were no borrowings outstanding under lines of credit. The Organization had unused lines of credit outstanding of approximately $315 million and $395 million at June 30, 2012 and 2011, 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 $262 million and $274 million at June 30, 2012 and 2011, respectively. Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. The interest rate swap agreements are derivative instruments that are required to be marked to fair value and recorded on the statement of financial position. At June 30, 2012, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2013 through 2021, totaled $121 million. At June 30, 2011, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2012 through 2021, totaled $121 million. The estimated fair value of the interest rate swap agreements was a liability of approximately $12 million and $5 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2012 and 2011.

The change in fair value on these interest rate swap agreements was a loss of approximately $7 million and $2 million for the years ended June 30, 2012 and 2011, respectively, and is included in nonoperating (losses)/gains in the consolidated statement of activities.

The following table represents the interest rate swap liabilities that are measured at fair value on a recurring basis at June 30, 2012 and 2011 (in thousands):

		Fair value measurements		
		Level 1	**Level 2**	**Level 3**
Interest rate swap liabilities at June 30, 2012	$	—	11,852	—
Interest rate swap liabilities at June 30, 2011	$	—	5,138	—

For the valuation of the interest rate swap at June 30, 2012 and 2011, the Organization used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Organization. See note 8 for definitions of Levels 1, 2 and 3.

Letters of Credit: The Organization had unused letters of credit outstanding of approximately $59 million and $53 million at June 30, 2012 and 2011, 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):

		Operating		**Capital**
2013	$	29,384		128
2014		21,276		98
2015		16,553		67
2016		12,810		1
2017		10,083		1
Thereafter		17,325		10
Total minimum lease payments	$	107,431		305
Less amounts representing interest				(30)
Present value of net minimum lease payments (note 4)			$	275

Total rent expense was approximately $52 million and $51 million for the years ended June 30, 2012 and 2011, 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, 2012, are as follows (in thousands):

2013	$	11,732
2014		13,710
2015		13,878
2016		14,052
2017		14,230
Thereafter		43,815
Total minimum lease payments to be received	$	111,417

Total rental income was approximately $12 million and $11 million for the years ended June 30, 2012 and 2011, respectively, and is included in other revenues on the consolidated statement of activities.

(6) Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2012 and 2011 (in thousands):

		2012	2011
Disaster services	$	49,490	24,712
Biomedical services		554	7,190
Health and safety services		1,259	4,031
International relief and development services		304,569	407,276
Community services		4,826	5,718
Buildings and equipment		9,481	11,084
Endowment inflation adjustment reserve		176,500	166,801
Endowment assets available for future appropriation		108,968	143,071
Other specific purposes		21,471	24,369
Time restricted		80,395	76,874
Total temporarily restricted net assets	$	757,513	871,126

Permanently restricted net assets at June 30, 2012 and 2011 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. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

The Organization makes distributions from income earned on the endowment fund for current operations using the total return method. In establishing this method, the Organization considered the long-term expected return on its funds. 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 3.8 percent for both 2012 and 2011 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately $31 million and $30 million for the years ended June 30, 2012 and 2011, respectively. Approximately $22 million and $20 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2012 and 2011, respectively. A spending rate of approximately 3.8 percent of the trailing five-year market value has been approved for 2013.

Net asset classification by type of endowment as of June 30, 2012, is as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	285,468	542,602	828,070

Changes in endowment net assets for the year ended June 30, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ —	309,872	520,542	830,414
Investment return:				
Investment income	—	30,459	—	30,459
Net depreciation (net realized and unrealized losses)	—	(24,285)	—	(24,285)
Total investment return	—	6,174	—	6,174
Contributions	—	—	22,060	22,060
Appropriation of endowment assets for expenditure	—	(30,578)	—	(30,578)
Endowment net assets, end of year	$ —	285,468	542,602	828,070

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	309,872	520,542	830,414

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

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

(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.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2012 and 2011 (in thousands):

	June 30, 2012	Level 1	Level 2	Level 3
U.S. government securities	$ 238,547	12,337	226,210	—
Corporate and foreign sovereign bonds and notes	202,660	21,143	181,517	—
Common and preferred stocks	314,646	230,230	84,416	—
Mortgage-backed assets	20,048	—	20,048	—
Other asset-backed assets	916	—	562	354
Fund of hedge funds	58,095	—	—	58,095
Global macro hedge funds	30,227	—	—	30,227
Hedged equity funds	166,766	—	—	166,766
Multistrategy and other hedge funds	64,584	—	—	64,584
Buyout and growth equity funds	117,128	—	—	117,128
Distressed debt and turnaround funds	45,497	—	—	45,497
Private real estate funds	33,438	—	—	33,438
Venture capital funds	15,124	—	—	15,124
Commodity sensitive private equity and infrastructure funds	28,281	—	—	28,281
Commodities	4,429	—	4,429	—
Swap contracts	(416)	—	(416)	—
Money market and other	643,753	320	643,433	—
Total investments	$ 1,983,723	264,030	1,160,199	559,494

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

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, 2012 and 2011, 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, 2012 and 2011, the Organization used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2).

The valuation of hedge funds, buyout and growth equity funds, distressed debt and turnaround funds, private real estate funds, venture capital funds, commodity sensitive private equity and infrastructure funds at June 30, 2012 and 2011, 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.

The Organization had investments in commodity and equity swap derivative contracts at June 30, 2012 and 2011 with aggregate notional values of $31 million and $14 million, respectively, and a net fair value liability of $415,000 and a net asset of $43,000, respectively.

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, 2012 and 2011 (in thousands):

	Balance at 2011	Purchases	Settlements	Realized gains (losses)	Change in unrealized gains (losses)	Balance at 2012
Other asset backed securities	$ 353	—	—	—	1	354
Fund of hedge funds	74,419	—	(14,926)	—	(1,398)	58,095
Global macro hedge funds	29,168	—	(310)	—	1,369	30,227
Hedged equity funds	159,470	3,000	(7,810)	5,650	6,456	166,766
Multistrategy and other hedge funds	64,135	4,000	(1,284)	(9)	(2,258)	64,584
Buyout and growth equity funds	99,985	23,443	(15,317)	8,901	116	117,128
Distressed debt and turnaround fund	44,190	3,979	(2,765)	126	(33)	45,497
Private real estate funds	26,943	4,814	(1,646)	581	2,746	33,438
Venture capital funds	15,634	1,017	(3,135)	2,440	(832)	15,124
Commodity sensitive private equity and infrastructure funds	27,280	4,822	(4,086)	1,243	(978)	28,281
	$ 541,577	45,075	(51,279)	18,932	5,189	559,494

	Balance at 2010	Purchases, issuances, and settlements, net	Total realized and unrealized gains	Balance at 2011
Other asset backed securities	$ 904	497	(1,048)	353
Fund of hedge funds	73,995	8,424	(8,000)	74,419
Global macro hedge funds	21,831	3,100	4,237	29,168
Hedged equity funds	141,021	39,712	(21,263)	159,470
Multistrategy and other hedge funds	64,945	5,703	(6,513)	64,135
Buyout and growth equity funds	77,979	16,044	5,962	99,985
Distressed debt and turnaround funds	40,087	5,053	(950)	44,190
Private real estate funds	20,024	2,801	4,118	26,943
Venture capital funds	14,128	2,613	(1,107)	15,634
Commodity sensitive private equity and infrastructure funds	21,385	5,143	752	27,280
	$ 476,299	89,090	(23,812)	541,577

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, 2012 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of hedge funds (a)	$	58,095	—	annually, tri-annually	100 days
Global macro hedge funds (b)		30,227	—	monthly, quarterly, annually	5-60 days
Hedged equity funds (c)		166,766	—	monthly, quarterly, annually	60-90 days
Multistrategy and other hedge funds (d)		64,584	—	monthly, quarterly, annually, bi-annually, tri-annually	30-90 days
Buyout and growth equity funds (e)		117,128	45,951	None	—
Distressed debt and turnaround funds (f)		45,497	12,406	None	—
Private real estate funds (g)		33,438	12,105	None	—
Venture capital funds (h)		15,124	6,319	None	—
Commodity sensitive private equity and infrastructure funds (i)		28,281	15,063	None	—
Public equity commingled funds (j)		84,416	—	weekly, monthly	1-30 days
Fixed income commingled funds (k)		259,043	—	weekly, monthly	1-30 days
Total	$	902,599	91,844		

(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 available for redemption until the investment is liquidated by the manager. The time at which the investments in side pockets will be liquidated is unknown.

(d) The strategies of the funds in this category include relative value, event driven, and arbitrage strategies. Underlying investments are typically the same as the types invested in both the public equity, fixed income commingled categories, bank debt, convertible bonds and 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 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 U.S. 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, and infrastructure such as ports, toll roads, airports and utilities.

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

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

(e), (f), (g), (h), (i) These 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) 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 of the gate (a level stated in their governing documents). The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

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

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the estimated fair value of investments reported in the statement of financial position as of June 30, 2012. However, the diversification of the Organization’s invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

The following schedule summarizes the composition of investment return for the years ended June 30, 2012 and 2011 (in thousands):

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Dividends and interest	$ 15,428	30,942	—	46,370
Net operating investment gains	11,670	60	—	11,730
Investment income available for operations	27,098	31,002	—	58,100
Net nonoperating investment gains (losses)	(18,424)	(21,597)	3,507	(36,514)
Total return on investments	$ 8,674	9,405	3,507	21,586

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

Securities Lending Program: Prior to August 2011, both the Organization and the Retirement System of The American National Red Cross (the Plan) participated in a securities lending program administered by its custodian. The custodian enters into securities lending agreements with borrowers on behalf of the participants. Either party can terminate the loan at any time. The borrower is required to deliver collateral to the custodian to secure each loan. Such collateral must be delivered prior to or simultaneous with the custodian's delivery of the loaned securities to the borrower. Collateral requirements for each loan are as follows: (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, 102 percent of the market value of loaned securities; and (ii) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market is not located in the United States, 105 percent of the market value of the loaned securities. Cash collateral is invested by the custodian in short-term money market funds based on the security type loaned. Collateral is marked to market at the close of business each day, with settlement of any difference made by the appropriate party.

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

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

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

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

(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 $233 million and $200 million in assets under these agreements as of June 30, 2012 and 2011, respectively, which are included in other assets on the consolidated statement of financial position, $41 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 $24 million and $21 million as of June 30, 2012 and 2011, respectively, of which $3 million and $4 million is included with other current liabilities and $21 million and $17 million is included with other noncurrent liabilities on the consolidated statement of financial position, respectively.

(10) Benefit Plans

The Retirement System of the American National Red Cross: Before July 1, 2009, employees of the American Red Cross, including the employees of participating local chapters, were covered by the Retirement System of the American National Red Cross (the Plan) after one year of employment and completion of 1,000 hours of service during any consecutive 12 month period. Effective July 1, 2009, the Plan was closed to employees hired after June 30, 2009. See also note 13.

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined benefit pension, funded entirely by the employer. Prior to July 1, 2005, voluntary after tax contributions could be made by active members to fund an optional annuity benefit. The benefit formula is based on years of service and the employees' final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months of service before retirement.

The Organization's funding policy is set to comply with the funding requirements established under the Pension Protection Act of 2006 and to meet the requirements of ERISA. During fiscal years 2012 and 2011, the Organization contributed 9.7 percent and 9.6 percent of covered payroll to the Retirement System, respectively.

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

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the consolidated statements of financial position for the years ended June 30, 2012 and 2011 (in thousands):

	Pension benefits		Postretirement benefits	
	2012	**2011**	**2012**	**2011**
Changes in benefit obligations:				
Benefit obligations at beginning of year	$ 2,436,222	2,243,022	79,488	79,911
Service cost	62,446	59,690	675	770
Interest cost	137,269	130,055	4,066	4,138
Plan amendment	—	—	—	(409)
Actuarial (gain) loss	285,344	79,219	3,963	(1,321)
Benefits paid	(85,604)	(75,764)	(3,088)	(3,601)
Benefit obligations at end of year	2,835,677	2,436,222	85,104	79,488
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,843,576	1,560,641	—	—
Actual return on plan assets	61,787	248,894	—	—
Employer contributions	95,395	109,805	—	—
Benefits paid	(85,604)	(75,764)	—	—
Fair value of plan assets at end of year	1,915,154	1,843,576	—	—
Funded status/accrued benefit costs	$ (920,523)	(592,646)	(85,104)	(79,488)

Pension-related changes other than net periodic benefit cost for 2012:

	Pension benefits	Postretirement benefits	Total
Prior service credit (cost)	$ 373	(33,379)	(33,006)
Amortized net loss	22,920	—	22,920
Net actuarial loss	(371,521)	(3,963)	(375,484)
	$ (348,228)	(37,342)	(385,570)

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

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

Items not yet recognized as a component of net periodic benefit cost for 2012:

		Pension benefits	Postretirement benefits	Total
Unrecognized prior service (credit)	$	—	(55,279)	(55,279)
Unrecognized net actuarial loss		882,685	3,306	885,991
	$	882,685	(51,973)	830,712

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

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

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

		Pension benefits	Postretirement benefits	Total
Prior service cost	$	—	(33,379)	(33,379)
Net actuarial loss		13,190	—	13,190
	$	13,190	(33,379)	(20,189)

The accumulated benefit obligation for the pension plan was approximately $2.6 billion and $2.2 billion as of June 30, 2012 and 2011, respectively.

The weighted average assumptions used to determine benefit obligations for 2012 and 2011 were as follows:

	Pension benefits		Postretirement benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	4.96%	5.75%	4.45%	5.25%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2012 and 2011 were as follows:

	Pension benefits		Postretirement benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	5.75%	5.91%	5.25%	5.33%
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, approximately a 8.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2012. The rate was assumed to decrease gradually to 5 percent for 2019 and remain at that level thereafter. A 9.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2011. The rate was assumed to decrease gradually to 5 percent for 2021 and remain at that level thereafter.

The components of net periodic benefit cost (credit) for the years ended June 30, 2012 and 2011 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2012	**2011**	**2012**	**2011**
Service cost	$ 62,446	59,690	675	770
Interest cost	137,269	130,055	4,066	4,138
Expected return on plan assets	(147,965)	(139,013)	—	—
Amortization of prior service cost (credit)	373	836	(33,379)	(33,281)
Net amortization loss	22,920	8,982	—	—
Net periodic benefit cost	$ 75,043	60,550	(28,638)	(28,373)

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	$ 5	(6)
Effect on postretirement benefit obligation	112	(129)

The Organization expects to contribute approximately $61 million to its pension plan and $4 million to its postretirement benefit plan during the year ended June 30, 2013.

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

	Pension benefits	Postretirement benefits
2013	$ 110,932	3,991
2014	122,370	4,336
2015	131,816	4,741
2016	140,639	5,059
2017	148,601	5,360
2018–2022	828,451	28,645
	$ 1,482,809	52,132

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

The Plan assets were invested in the following categories at June 30, 2012 and 2011:

	Pension assets	
	2012	**2011**
Cash and short-term investments	9%	9%
Domestic equity	5	4
International equity	12	17
Fixed income	34	32
Commodities	1	3
Marketable and nonmarketable alternative funds	39	35
	100%	100%

The Plan assets were within authorized asset allocation ranges at June 30, 2012 and 2011.

The following tables represent pension plan assets that are measured at fair value on a recurring basis at June 30, 2012 and 2011 (in thousands):

	Fair value measurements at June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
U.S. government securities	$ 144,747	68,502	—	213,249
Corporate and foreign sovereign bonds and notes	28,519	316,304	—	344,823
Common and preferred stocks	238,771	95,937	—	334,708
Fund of hedge funds	—	—	62,761	62,761
Global macro hedge funds	—	—	34,862	34,862
Hedged equity funds	—	—	151,372	151,372
Multistrategy and other hedge funds	—	—	80,576	80,576
Buyout and growth equity funds	—	—	139,142	139,142
Distressed debt and turnaround funds	—	—	51,140	51,140
Private real estate funds	—	—	61,807	61,807
Venture capital funds	—	—	24,432	24,432
Commodity sensitive private equity and infrastructure funds	—	—	107,503	107,503
Commodities	—	9,765	—	9,765
Derivative contracts	—	27,936	—	27,936
Money market and other	26,939	144,859	—	171,798
Equity interest in par annuity	—	—	48,804	48,804
Guaranteed accumulation fund	—	—	50,476	50,476
Total	$ 438,976	663,303	812,875	1,915,154

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

The 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, 2012 and 2011 (in thousands):

	Balance at 2011	Purchases	Sales	Realized gains	Change in unrealized gains (losses)	Balance at 2012
Fund of hedge funds	$ 46,872	15,000	—	—	889	62,761
Global macro hedge funds	33,244	—	(125)	—	1,743	34,862
Hedged equity funds	128,077	17,500	(5,207)	—	11,002	151,372
Multistrategy and other hedge funds	66,053	13,454	(372)	4,168	(2,727)	80,576
Buyout and growth equity funds	122,855	21,844	(7,351)	9,486	(7,692)	139,142
Distressed debt and turnaround funds	48,673	4,917	(2,465)	343	(328)	51,140
Private real estate funds	49,979	8,876	(1,841)	1,906	2,887	61,807
Venture capital funds	22,913	2,117	(924)	2,762	(2,436)	24,432
Commodity sensitive private equity and infrastructure funds	106,561	8,598	(6,515)	2,731	(3,872)	107,503
Equity interests in par annuity	44,360	—	—	—	4,444	48,804
Guaranteed accumulation fund	54,750	—	—	—	(4,274)	50,476
	$ 724,337	92,306	(24,800)	21,396	(364)	812,875

	Balance at 2010	Purchases, issuance, and settlements, net	Total realized and unrealized gains	Balance at 2011
Fund of hedge funds	$ 41,999	4,873	—	46,872
Global macro hedge funds	30,896	4,648	(2,300)	33,244
Hedged equity funds	125,472	38,148	(35,543)	128,077
Multistrategy and other hedge funds	51,262	4,023	10,768	66,053
Buyout and growth equity funds	93,563	20,561	8,731	122,855
Distressed debt and turnaround funds	43,935	5,579	(841)	48,673
Private real estate funds	36,946	4,372	8,661	49,979
Venture capital funds	18,144	4,272	497	22,913
Commodity sensitive private equity and infrastructure funds	92,935	12,420	1,206	106,561
Equity interests in par annuity	38,339	12,021	(6,000)	44,360
Guaranteed accumulation fund	58,012	(3,262)	—	54,750
	$ 631,503	107,655	(14,821)	724,337

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 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. The Plan held cash and U.S. Treasury and Agency securities to fully collateralize the swap and swaption positions as of June 30, 2012.

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 an equity swap agreement to invest in a number of mostly Asian exchange-traded funds. The Plan also uses three equity collars to provide protection against market decline in the Plan's equity portfolio. Both the equity swap and equity collar agreements are required to be marked to fair value on a recurring basis.

The Plan uses both a foreign exchange and gold option to reduce the impact of certain low probability extreme events (tail risk) on the Plan's assets or liabilities. The purchase prices of the exchange and gold options at inception were $7.5 million and $5 million, respectively. Under both option contracts, the Plan's maximum potential loss is the initial investment cost (option premium). Subsequent to inception, both options are required to be 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, 2012 and 2011 (in thousands):

Derivative type		**June 30, 2012**	**June 30, 2011**
Interest Rate Contracts	$	1,600,000	75,000
Commodity Contracts		52,000	8,000
Equity Contracts		190,000	16,000
Tail Risk Contracts		374,950	320,000

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2012 and 2011 (in thousands):

	Asset Derivatives		Liability Derivatives	
Derivative type	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Interest Rate Contracts	$ 68,006	2,311	$ 44,276	1,368
Commodity Contracts	1,109	242	199	—
Equity Contracts	513	26	1,659	—
Tail Risk Contracts	5,471	8,132	—	—
Carrying value of derivatives included in pension plan assets	$ 75,099	10,711	$ 46,134	1,368

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, 2012 and 2011 (in thousands):

	Realized Gains/(Losses)		Change in Unrealized Gains/(Losses)	
Derivative type	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Interest Rate Contracts	$ 22,031	4,489	$ 15,491	943
Commodity Contracts	4,001	(526)	(242)	242
Equity Contracts	(3,565)	57	(1,290)	26
Tail Risk Contracts	—	—	(7,661)	676
	$ 22,467	4,020	$ 6,298	1,887

(Continued)

For the valuation of the Plan's derivative contracts at June 30, 2012, 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 National Red Cross Savings Plan (the Savings Plan), a defined contribution plan. Employees are eligible to participate upon hire. Vesting is immediate if hired before June 30, 2005; there is a 3 year cliff vesting schedule if hired on or after July 1, 2005. Prior to May 1, 2009, the American National Red Cross matched 100% of the first 4% of pay contributed each pay period by the participant. As of May 1, 2009 the American Red Cross temporarily suspended the employer match and reinstated it January 1, 2012. There were $17 million in contributions to the Savings Plan in 2012. There were no contributions to the Savings Plan in calendar year 2011. For the 2012 calendar year, contribution limits were based on a maximum annual compensation of $250,000. As of June 30, 2012, there were 20 investment options that an employee could choose from and a self-managed brokerage account option.

(11) Receivables Securitization Program

During fiscal year 2006, the Organization entered into several agreements constituting an Asset Backed Securitization program with a revolving limit of $100 million. The program sells (securitizes) certain biomedical hospital accounts receivable each month, while retaining a subordinated interest in a portion of the receivables. In August 2007, under the 3rd amendment to the program, the securitized receivable amount was increased to $150 million. The program is structured to sell the eligible receivables, without legal recourse, to a third party investor, through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables. 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, 2012 and 2011, the amount of outstanding borrowings under the securitization program was $141 million and $150 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 financial statements reflect adequate accrual for potential penalties resulting from noncompliance with the requirements of the Decree.

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

(13) Subsequent Events

On July 13, 2012, the Board of Governors formally adopted a plan amendment to the Retirement System of the American National Red Cross freezing benefit accruals as of December 31, 2012 for all plan participants, except for a small group of represented employees. This plan amendment will result in a curtailment gain estimated at $176 million in fiscal year 2013.

The Organization has evaluated subsequent events through the date the financial statements were issued, October 25, 2012.