The American Red Cross ended its fiscal year 2012 with net assets of $1.6 billion, posting total operating revenues of $3.2 billion and total operating expenses of $3.3 billion. Behind these indicators of size and activity are several key numbers that help explain the organization’s stable financial performance.

**$14.2 million:** Red Cross operating deficit. Red Cross day-to-day operating revenues and expenses are captured by the $14.2 million deficit figure. After an operating deficit in FY08 of $209 million, we have worked hard in the ensuing years to drive the organization toward a culture of financial efficiency that has significantly cut back-office costs from our chapters, biomedical units and national headquarters, including in FY12. We received outstanding fundraising support for Hurricane Irene and other FY12 disasters, and also invested in fundraising programs to position the Red Cross for revenue growth in future years. Despite a challenging year for blood collections, Biomedical Services was successful at controlling expenses even as it has invested in new technology that will offer added value to our hospital customers in the years ahead. In addition, we continued to manage expenses in national headquarters departments and in our local chapters. We consolidated our Human Resources, Marketing, Information Technology, Finance, and Preparedness and Health and Safety Services operations, eliminating unnecessary administrative burdens and freeing local staff to focus more on fulfilling our mission and providing services in their communities.

**$175 million:** Negative change in net assets from operations as reported on Red Cross audited financial statements. The $14.2 million management calculation focuses on core ongoing revenues and expenses. It segregates daily operations from the spend-down of specific episodic disaster relief operations, one-time events and/or market value adjustments. These types of activities are part of an audited statement, but are managed separately.

*Note:* Financial statements for the Red Cross are reported according to GAAP accounting rules, which do not completely reflect the daily business operations of the organization. The difference between the $14.2 million operating deficit and $175 million loss on the Statement of Activities is due to a large defined benefit plan funding change; one-time relief expenditures for the 2011 Japan earthquake relief funded by contributions in the previous year; and ongoing investment in a biomedical IT system, called BioArch.

**$597 million:** Negative change in total net assets as reported on Red Cross audited financial statements. The $597 million total change in net assets mostly reflects pension-related costs and losses on investments as of June 30, 2012. When these pension related costs and investment losses are combined with the $175 million losses in operating net assets, we get the total change in net assets of $597 million.

**$553 million:** Red Cross debt. In FY12, the Red Cross continued making strides toward reducing our total debt to $553 million, compared to $573 million in FY11. The Red Cross also continues to take steps toward reducing the debt risk to the organization. We have restructured more of our debt to make it less vulnerable to short-term volatility of interest rates. The Red Cross debt-to-net-asset ratio was 34.7 percent (debt: $553 million; net assets: $1,595 million), compared to 26 percent the prior year. The increase in this ratio was driven by the effect of the pension plan discount rate on June 30, 2012, which was a snapshot of how we were required to value the pension liability of the organization on that date. The Red Cross is taking steps to curtail its pension plan effective in FY13, and had we been able to recognize our pension plan curtailment in FY12, the ratio would have been 31.2 percent. Still, the debt-to-net-asset ratio falls within the covenants we have negotiated with our bankers, which have supported our financial management strategy. We must strive to produce a breakeven budget performance in order for the organization to prudently pay off this debt in future years.

Our audited results show that the Red Cross is continuing to maintain financial stability. Looking ahead, we are focused on building toward long-term financial sustainability, fueled by growing revenues supporting needed, cost-effective and lifesaving services.

Brian Rhoa  
Chief Financial Officer

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 2012. In the independent auditor’s opinion, the American Red Cross statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

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

The Act of Congress that incorporates the American Red Cross, as implemented by DOD Directive 1000.26E (Support for Non-Federal Entities Authorized to Operate on DOD Installations) and AR 930-5 (American National Red Cross Service Program and Army Utilization), requires U.S. Army Audit Agency to perform an annual audit of the consolidated financial statements of the American Red Cross. The American Red Cross contracted with the certified public accounting firm of KPMG LLP as the principal auditor to perform a financial audit of its 2012 consolidated financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and best use our available resources, we reviewed the principal auditor’s work and reports.

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

- Reviewed the principal auditor’s approach and planning of the audit
- Evaluated the qualifications and independence of the principal auditor’s staff
• Reviewed the annual Public Company Accounting Oversight Board (PCAOB) Inspection Report for KPMG, LLP, dated 15 August 2012 (PCAOB is a private-sector, non-profit corporation created by the Sarbanes-Oxley Act to oversee the auditors of public companies)

• 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 principal auditor used; (iii) whether a study and evaluation were conducted of the entity’s internal accounting controls; and (iv) whether the evidence in the working papers supported the principal auditor’s opinion on the consolidated financial statements.

In the opinion of KPMG LLP, the consolidated financial statements present fairly, in all material respects, the financial position of the American Red Cross, as of 30 June 2012, and the changes in its net assets and cash flow and its functional expenses for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During our review of KPMG LLP’s work, we found nothing to indicate KPMG LLP’s opinion on the American Red Cross 2012 consolidated financial statements is inappropriate or cannot be relied upon.

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

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

RANDALL EXLEY, CPA
The Auditor General