

**Greater Cleveland Chapter of
The American Red Cross**

**Financial Report
June 30, 2009 and 2008**

Greater Cleveland Chapter of The American Red Cross

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Independent Auditor's Report

To the Board of Directors
Greater Cleveland Chapter of
The American Red Cross

We have audited the accompanying statement of financial position of Greater Cleveland Chapter of The American Red Cross (a not-for-profit organization) as of June 30, 2009 and 2008 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of Greater Cleveland Chapter of The American Red Cross' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Cleveland Chapter of The American Red Cross as of June 30, 2009 and 2008 and the results of its operations and changes in net assets, cash flows, and functional expenses for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2009 on our consideration of Greater Cleveland Chapter of The American Red Cross' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in Note 4 to the financial statements, the Chapter adopted the provisions of FASB No. 157, *Fair Value Measurements*, as of July 1, 2008.

Plante & Moran, PLLC

August 25, 2009

Greater Cleveland Chapter of The American Red Cross

Statement of Financial Position

	June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 792,831	\$ -	\$ -	\$ 792,831
Interfund receivable (payable)	(428,333)	408,788	19,545	-
Accounts receivable:				
Contributions/Pledges (Note 2)	30,148	965,052	40,500	1,035,700
Other	244,571	-	-	244,571
Inventory	42,235	-	-	42,235
Prepaid expenses and other assets	123,978	-	-	123,978
	<u>805,430</u>	<u>1,373,840</u>	<u>60,045</u>	<u>2,239,315</u>
Total current assets	805,430	1,373,840	60,045	2,239,315
Noncurrent Assets				
Investments (Note 3)	221,342	125,685	4,779,430	5,126,457
Due from National - Charitable annuities (Note 5)	628,058	-	321,723	949,781
Property and equipment - Net (Note 6)	3,926,830	-	-	3,926,830
	<u>4,776,230</u>	<u>125,685</u>	<u>5,101,153</u>	<u>10,003,068</u>
Total noncurrent assets	4,776,230	125,685	5,101,153	10,003,068
Total assets	\$ 5,581,660	\$ 1,499,525	\$ 5,161,198	\$ 12,242,383
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 300,357	\$ -	\$ -	\$ 300,357
Accrued liabilities	423,580	-	-	423,580
Inter-Red Cross payables	1,547	-	-	1,547
Deferred revenue and other liabilities	5,002	-	-	5,002
	<u>730,486</u>	<u>-</u>	<u>-</u>	<u>730,486</u>
Total liabilities	730,486	-	-	730,486
Net Assets (Note 8)				
Unrestricted	4,851,174	-	-	4,851,174
Temporarily restricted	-	1,499,525	-	1,499,525
Permanently restricted	-	-	5,161,198	5,161,198
	<u>4,851,174</u>	<u>1,499,525</u>	<u>5,161,198</u>	<u>11,511,897</u>
Total net assets	4,851,174	1,499,525	5,161,198	11,511,897
Total liabilities and net assets	\$ 5,581,660	\$ 1,499,525	\$ 5,161,198	\$ 12,242,383

Greater Cleveland Chapter of The American Red Cross

Statement of Financial Position (Continued)

	June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 453,613	\$ -	\$ -	\$ 453,613
Interfund receivable (payable)	(365,805)	357,416	8,389	-
Accounts receivable:				
Contributions/Pledges (Note 2)	10,500	1,546,513	55,136	1,612,149
Other	848,719	-	-	848,719
Inventory	55,653	-	-	55,653
Prepaid expenses and other assets	96,066	-	-	96,066
Total current assets	1,098,746	1,903,929	63,525	3,066,200
Noncurrent Assets				
Investments (Note 3)	2,912,624	-	4,583,940	7,496,564
Due from National - Charitable annuities (Note 5)	930,715	-	522,407	1,453,122
Property and equipment - Net (Note 6)	3,948,785	-	-	3,948,785
Total noncurrent assets	7,792,124	-	5,106,347	12,898,471
Total assets	\$ 8,890,870	\$ 1,903,929	\$ 5,169,872	\$ 15,964,671
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 778,300	\$ -	\$ -	\$ 778,300
Accrued liabilities	436,916	-	-	436,916
Inter-Red Cross payables	20,890	-	-	20,890
Deferred revenue and other liabilities	3,040	380	-	3,420
Total liabilities	1,239,146	380	-	1,239,526
Net Assets (Note 8)				
Unrestricted	7,651,724	-	-	7,651,724
Temporarily restricted	-	1,903,549	-	1,903,549
Permanently restricted	-	-	5,169,872	5,169,872
Total net assets	7,651,724	1,903,549	5,169,872	14,725,145
Total liabilities and net assets	\$ 8,890,870	\$ 1,903,929	\$ 5,169,872	\$ 15,964,671

Greater Cleveland Chapter of The American Red Cross

Statement of Activities and Changes in Net Assets

	Year Ended June 30, 2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Support				
Contributions:				
Federated	\$ 197,759	\$ 875,608	\$ -	\$ 1,073,367
Monetary contributions	1,384,295	189,202	9,333	1,582,830
Special events revenue:				
Special events revenue	293,072	-	-	293,072
Less direct costs of special events	(85,874)	-	-	(85,874)
Net special events revenue	207,198	-	-	207,198
Legacies and bequests	61,598	198,819	507,110	767,527
Charitable annuities	12,320	-	9,970	22,290
In-kind contributions	114,540	-	-	114,540
Grants	1,230,972	360,409	-	1,591,381
Federal contracts	204,900	-	-	204,900
Investment loss	(932,352)	(73,134)	(356,489)	(1,361,975)
Unrealized loss on charitable annuities	(314,977)	-	(210,654)	(525,631)
Products and services	1,317,366	-	-	1,317,366
Inter-Red Cross revenue	867,148	-	-	867,148
Other revenue	50,294	-	-	50,294
Net assets released from restrictions	1,990,675	(1,990,675)	-	-
Total revenue and support	6,391,736	(439,771)	(40,730)	5,911,235
Expenses				
Program services:				
Services to chapters	34,182	-	-	34,182
Armed forces emergency services	278,659	-	-	278,659
Disaster services	2,190,871	-	-	2,190,871
Biomedical services	797,184	-	-	797,184
Health services	3,823,936	-	-	3,823,936
Community services	276,001	-	-	276,001
International services	101,212	-	-	101,212
Total program services	7,502,045	-	-	7,502,045
Support services:				
Financial development	898,336	-	-	898,336
Management and general	823,870	-	-	823,870
Total support services	1,722,206	-	-	1,722,206
Total expenses	9,224,251	-	-	9,224,251
Decrease in Net Assets - Before transfer of net assets	(2,832,515)	(439,771)	(40,730)	(3,313,016)
Transfer of Net Assets (Note 8)	31,965	35,747	32,056	99,768
Decrease in Net Assets	(2,800,550)	(404,024)	(8,674)	(3,213,248)
Net Assets - Beginning of year	7,651,724	1,903,549	5,169,872	14,725,145
Net Assets - End of year	<u>\$ 4,851,174</u>	<u>\$ 1,499,525</u>	<u>\$ 5,161,198</u>	<u>\$ 11,511,897</u>

See Notes to Financial Statements.

Greater Cleveland Chapter of The American Red Cross

Statement of Activities and Changes in Net Assets (Continued)

	Year Ended June 30, 2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Support				
Contributions:				
Federated	\$ 201,012	\$ 1,393,535	\$ -	\$ 1,594,547
Monetary contributions	1,223,553	480,637	16,442	1,720,632
Special events revenue:				
Special events revenue	871,065	-	-	871,065
Less direct costs of special events	(381,554)	-	-	(381,554)
Net special events revenue	489,511	-	-	489,511
Legacies and bequests	5,448	-	-	5,448
In-kind contributions	80,844	-	-	80,844
Grants	1,385,269	256,420	-	1,641,689
Federal contracts	50,500	-	-	50,500
Investment income (loss)	24,347	-	(129,770)	(105,423)
Unrealized loss on charitable annuities	(42,530)	-	(44,271)	(86,801)
Products and services	1,263,850	-	-	1,263,850
Inter-Red Cross revenue	881,635	-	-	881,635
Other revenue	61,939	-	-	61,939
Net assets released from restrictions	2,643,694	(2,643,694)	-	-
Total revenue and support	8,269,072	(513,102)	(157,599)	7,598,371
Expenses				
Program services:				
Services to chapters	23,186	-	-	23,186
Armed forces emergency services	328,425	-	-	328,425
Disaster services	2,275,692	-	-	2,275,692
Biomedical services	885,829	-	-	885,829
Health services	3,724,556	-	-	3,724,556
Community services	367,481	-	-	367,481
International services	122,053	-	-	122,053
Total program services	7,727,222	-	-	7,727,222
Support services:				
Financial development	685,942	-	-	685,942
Management and general	810,281	-	-	810,281
Total support services	1,496,223	-	-	1,496,223
Total expenses	9,223,445	-	-	9,223,445
Decrease in Net Assets	(954,373)	(513,102)	(157,599)	(1,625,074)
Net Assets - Beginning of year	8,606,097	2,416,651	5,327,471	16,350,219
Net Assets - End of year	\$ 7,651,724	\$ 1,903,549	\$ 5,169,872	\$ 14,725,145

Greater Cleveland Chapter of The American Red Cross

	Program Services					
	Services to Chapters	Armed Forces Emergency Services	Disaster Services	Biomedical Services	Health Services	Community Services
Compensation	\$ 21,477	\$ 13,321	\$ 663,417	\$ 169,316	\$ 1,471,619	\$ 177,743
Employee benefits	4,061	3,236	141,272	56,345	309,082	37,255
Travel and special event facility expense	489	60	13,724	68	46,570	270
Financial and material assistance	70	70	412,072	1,181	41,170	309
Supplies and materials	322	2,545	256,837	22,967	581,904	20,075
Equipment - Maintenance and rental	260	521	37,041	14,392	42,372	2,992
Contractual services	7,156	35,805	231,473	408,821	1,146,265	31,471
Depreciation expense	347	1,125	53,219	124,094	69,526	5,886
National sector chapter assessment	-	221,976	381,816	-	115,428	-
Total expenses	<u>\$ 34,182</u>	<u>\$ 278,659</u>	<u>\$2,190,871</u>	<u>\$ 797,184</u>	<u>\$3,823,936</u>	<u>\$ 276,001</u>

	Program Services					
	Services to Chapters	Armed Forces Emergency Services	Disaster Services	Biomedical Services	Health Services	Community Services
Compensation	\$ 14,867	\$ 30,279	\$ 720,274	\$ 180,751	\$ 1,358,856	\$ 206,086
Employee benefits	3,593	7,202	193,899	61,604	319,727	44,553
Travel and special event facility expense	198	386	11,950	(5)	23,573	1,585
Financial and material assistance	58	170	465,808	790	132,276	19,865
Supplies and materials	389	3,051	145,156	68,886	472,111	24,857
Equipment - Maintenance and rental	153	726	42,889	43,584	178,818	18,104
Contractual services	3,677	41,293	230,640	412,176	1,042,431	45,819
Depreciation expense	251	1,354	45,458	118,043	69,903	6,612
National sector chapter assessment	-	243,964	419,618	-	126,861	-
Total expenses	<u>\$ 23,186</u>	<u>\$ 328,425</u>	<u>\$2,275,692</u>	<u>\$ 885,829</u>	<u>\$3,724,556</u>	<u>\$ 367,481</u>

Statement of Functional Expenses

Year Ended June 30, 2009

		Support Services						
International Services	Total Program Services	Financial Development	Management and General	Total Support Services	Total Without Special Events	Special Events	Total with Special Events	
\$ 6,450	\$ 2,523,343	\$ 410,223	\$ 472,922	\$ 883,145	\$ 3,406,488	\$ -	\$ 3,406,488	
2,023	553,274	80,949	74,074	155,023	708,297	-	708,297	
18	61,199	19,151	28,396	47,547	108,746	37,965	146,711	
12	454,884	3,515	8,150	11,665	466,549	-	466,549	
824	885,474	169,631	76,836	246,467	1,131,941	32,331	1,164,272	
218	97,796	9,874	13,351	23,225	121,021	-	121,021	
2,310	1,863,301	170,696	87,909	258,605	2,121,906	15,578	2,137,484	
569	254,766	7,657	8,957	16,614	271,380	-	271,380	
88,788	808,008	26,640	53,275	79,915	887,923	-	887,923	
\$ 101,212	\$ 7,502,045	\$ 898,336	\$ 823,870	\$1,722,206	\$9,224,251	\$ 85,874	\$9,310,125	

Year Ended June 30, 2008

		Support Services						
International Services	Total Program Services	Financial Development	Management and General	Total Support Services	Total Without Special Events	Special Events	Total with Special Events	
\$ 15,510	\$ 2,526,623	\$ 300,624	\$ 462,217	\$ 762,841	\$ 3,289,464	\$ -	\$ 3,289,464	
4,126	634,704	64,097	89,324	153,421	788,125	-	788,125	
63	37,750	11,694	12,097	23,791	61,541	139,454	200,995	
34	619,001	722	4,223	4,945	623,946	-	623,946	
1,551	716,001	137,789	44,767	182,556	898,557	212,590	1,111,147	
193	284,467	4,251	12,660	16,911	301,378	-	301,378	
2,418	1,778,454	130,049	117,635	247,684	2,026,138	29,510	2,055,648	
572	242,193	7,439	8,807	16,246	258,439	-	258,439	
97,586	888,029	29,277	58,551	87,828	975,857	-	975,857	
\$ 122,053	\$ 7,727,222	\$ 685,942	\$ 810,281	\$1,496,223	\$9,223,445	\$ 381,554	\$9,604,999	

Greater Cleveland Chapter of The American Red Cross

Statement of Cash Flows

	Year Ended	
	June 30, 2009	June 30, 2008
Cash Flows from Operating Activities		
Decrease in net assets before transfer of net assets	\$ (3,313,016)	\$ (1,625,074)
Adjustments to reconcile decrease in net assets before transfer of net assets to net cash from operating activities:		
Depreciation expense	271,380	258,439
Realized/Unrealized loss on investments	1,659,175	418,049
Unrealized loss on charitable annuities	525,631	86,801
Permanently restricted revenue	(526,413)	(16,442)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts and pledges receivable	1,210,252	1,532,956
Due from National - Charitable annuities	(22,290)	86,431
Inventory	16,125	(6,374)
Prepaid expenses and other assets	(27,912)	106,144
Accounts and Inter-Red Cross payables	(506,837)	65,064
Accrued and other liabilities	(13,671)	(91,919)
Net cash (used in) provided by operating activities	(727,576)	814,075
Cash Flows from Investing Activities		
Purchases of property and equipment	(218,526)	(383,221)
Purchases of investments	(720,983)	(713,056)
Proceeds from sales and maturities of investments	1,457,316	518,736
Receipt of cash with transfer of Ashland County assets	22,574	-
Net cash provided by (used in) investing activities	540,381	(577,541)
Cash Flows from Financing Activities		
Repayments on capital lease obligation	-	(3,782)
Permanently restricted monetary contributions	526,413	16,442
Net cash provided by financing activities	526,413	12,660
Net Increase in Cash and Cash Equivalents	339,218	249,194
Cash and Cash Equivalents - Beginning of year	453,613	204,419
Cash and Cash Equivalents - End of year	\$ 792,831	\$ 453,613
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 8,269	\$ 30,744
Noncash disclosure - Transfers from Ashland County (Note 8):		
Accounts and pledges receivable received in transfer of Ashland County net assets	29,655	-
Inventory received in transfer of Ashland County net assets	2,707	-
Investments received in transfer of Ashland County net assets	25,401	-
Net property and equipment received in transfer of Ashland County net assets	30,899	-
Accounts and Inter-Red Cross payables assumed in transfer of Ashland County net assets	9,551	-
Other accrued liabilities assumed in transfer of Ashland County net assets	1,917	-
Net assets transferred in from Ashland County	99,768	-

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies

Nature of Organization - The American Red Cross (ARC) is a humanitarian organization that brings together well-trained and dedicated volunteers and paid staff who help people prevent, prepare for, and respond to emergencies. Through its charter, ARC was authorized by Congress to provide a system of national and international relief and provide measures for the prevention of disasters and to provide a medium of communication between the people of the United States and the members of the armed forces. Greater Cleveland Chapter of The American Red Cross (the "Chapter") was chartered in 1905 to provide those services in its geographic area. As outlined in Note 8, the Chapter's geographical responsibilities were expanded to include Ashland County as of February 2009. With this change, the Chapter is responsible for providing services in Cuyahoga, Geauga, Lake, and Ashland Counties in the state of Ohio. In addition, the Chapter is called on to support national ARC efforts in response to large-scale national emergencies.

Significant accounting policies are as follows:

Cash and Cash Equivalents - All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was approximately \$42,000 and \$86,000 at June 30, 2009 and 2008, respectively.

Inventories - Inventories of resale supplies are valued at the lower of cost (first-in, first-out method) or market.

Investments - Investments are stated at fair value as determined using quoted market prices, where available. Where not available, the present value of estimated, expected future cash flows or another reasonable method is used. No investment or group of investments represents a significant concentration of market risk. Investment income or loss is included in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets, unless the income is restricted by donor or law.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

Capital Expenditures and Depreciation - Purchases of land, buildings, and equipment having a unit cost exceeding \$2,500 and an estimated useful life of more than three years are capitalized at cost. Donated assets are capitalized at their estimated fair market value at time of receipt. Certain donated services are capitalized as improvements when those services enhance the value of assets. It is not The American Red Cross' policy to imply time restrictions over the useful life of donated assets. In absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 40 years for buildings and 3-15 years for equipment.

Classification of Net Assets - Net assets of the Chapter are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Chapter's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Income Taxes - The Chapter is a member of a group exempted from federal income taxes obtained by ARC under Section 501(c)(3) of the Internal Revenue Code.

Contributions - All contributions are considered to be available for the general programs of the Chapter unless specifically restricted by the donor. The Chapter reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

The Chapter is a beneficiary of certain perpetual trusts that it does not control. The Chapter's pro rata share of such perpetual trusts and changes in asset values are recorded in permanently restricted net assets.

Donated Products and Services - Amounts included in the financial statements for donations of products and services are recorded at their estimated fair value at the time of receipt and are primarily included in special event revenue and expenses.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

Inter-organizational Activities - The Chapter charges certain administrative costs to The American Red Cross Blood Services, Northern Ohio Region (Blood Services) based on estimates of costs incurred that are attributable to the other organization's operations. In the aggregate, the Chapter allocated \$797,184 and \$885,829 of costs to Blood Services during 2009 and 2008, respectively.

The Chapter pays ARC for chapter assessments due to the national sector. The chapter assessments are determined annually by ARC based on a predetermined formula, including a prescribed functional expense allocation. The annual assessment for the years ended June 30, 2009 and 2008 was \$887,923 and \$975,857, respectively.

United Way Services Allocation - The Chapter is a financially participating agency of United Way Services. The Chapter records as a temporarily restricted account receivable its allocation from the United Way Services campaign to be distributed after year end.

Allocations received from various United Way agencies in the Chapter service area totaled approximately \$880,000 and \$1,390,000 in the years ended June 30, 2009 and 2008, respectively. In June 2008, the Chapter was notified by the United Way of Greater Cleveland (UWGC) of a funding decrease of approximately \$1.5 million to be phased in over a four-year period. The year ended June 30, 2009 statement of activities and changes in net assets includes the second-year funding reduction of approximately \$340,000. The year ended June 30, 2008 statement of activities and changes in net assets includes the first-year funding reduction of approximately \$740,000. The cumulative reduction in UWGC funding is approximately \$1,080,000 at June 30, 2009.

Functional Expenses - Direct costs of providing the Chapter's various programs and other activities have been summarized on a functional basis and reflected in the statement of functional expenses. Indirect costs have been allocated between the various programs and support services. Although the methods of allocation used are considered appropriate, other methods could be used that would produce a different result.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Risks and Uncertainties - The Chapter invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Note 2 - Pledges

The Chapter has received short-term unconditional pledges as of June 30, 2009 and 2008 in the amounts of \$1,035,700 and \$1,612,149, respectively, principally representing allocations from the United Way.

Note 3 - Investments

Investments, stated at fair value at June 30, are as follows:

	2009	2008
Perpetual trusts	\$ 1,891,621	\$ 1,604,726
Bond fund	472,065	596,519
Equity funds	2,747,927	5,295,319
Certificate of deposit	14,844	-
Total	<u>\$ 5,126,457</u>	<u>\$ 7,496,564</u>

Investment income (loss) for the years ended June 30 is as follows:

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 84,188	\$ -	\$ -	\$ 84,188
Perpetual trusts	213,012	(73,134)	(356,489)	(216,611)
Securities losses	(1,229,552)	-	-	(1,229,552)
Total	<u>\$ (932,352)</u>	<u>\$ (73,134)</u>	<u>\$ (356,489)</u>	<u>\$ (1,361,975)</u>
2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 285,526	\$ -	\$ -	\$ 285,526
Perpetual trusts	27,100	-	(129,770)	(102,670)
Securities losses	(288,279)	-	-	(288,279)
Total	<u>\$ 24,347</u>	<u>\$ -</u>	<u>\$ (129,770)</u>	<u>\$ (105,423)</u>

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Fair Value Measurements

As of July 1, 2008, the Chapter adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective prospectively for periods beginning July 1, 2008 for financial assets and liabilities and for periods beginning July 1, 2009 for nonfinancial assets and liabilities as a result of the deferral of the effective date of SFAS 157 provided by FSP FAS 157-2. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of July 1, 2008 did not have a material impact on the Chapter's financial statements.

The following tables present information about the Chapter's assets measured at fair value on a recurring basis at June 30, 2009 and the valuation techniques used by the Chapter to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Chapter has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Chapter's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2009
Assets				
Certificate of deposit	\$ 14,844	\$ -	\$ -	\$ 14,844
Equity funds	-	2,747,927	-	2,747,927
Bond fund	-	472,065	-	472,065
Perpetual trusts	-	-	1,891,621	1,891,621

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 4 - Fair Value Measurements (Continued)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Perpetual Trusts
Balance at June 30, 2008	\$ 1,604,726
Total unrealized losses included in income	(429,623)
Additional trusts established during the year ended June 30, 2009	716,518
Balance at June 30, 2009	<u>\$ 1,891,621</u>

Level 3 assets consist primarily of trust funds. The Chapter determines the fair value of trusts based on the present value of a perpetual stream of income from the assets with an applicable discount factor. The Chapter also uses statements provided by the asset custodians for some trusts, with the determination of fair value also using the present value method listed above.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Note 5 - Due from National - Charitable Annuities

ARC administers and records all charitable gift annuities at the fair market value of the assets contributed and an annuity payment liability based upon the present value of expected future cash flows. The Chapter recognizes a receivable due from ARC at the present value of the annuity.

Note 6 - Property and Equipment

The cost and accumulated depreciation of the Chapter's property and equipment for the years ended June 30 are as follows:

	2009	2008
Land	\$ 889,715	\$ 865,047
Buildings	5,116,389	4,964,456
Equipment	2,791,015	3,272,577
Construction in progress	-	71,832
Total cost	<u>8,797,119</u>	<u>9,173,912</u>
Accumulated depreciation	<u>(4,870,289)</u>	<u>(5,225,127)</u>
Net carrying amount	<u>\$ 3,926,830</u>	<u>\$ 3,948,785</u>

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 6 - Property and Equipment (Continued)

Depreciation expense was \$271,380 and \$258,439 for the years ended June 30, 2009 and 2008, respectively.

Note 7 - Line of Credit and Leases

The Chapter has an unsecured line of credit in the amount of \$750,000 with interest at the bank's prime rate (3.25 percent at June 30, 2009), which is renewable on an annual basis. As of June 30, 2009 and 2008, no amounts were outstanding under the line of credit.

The Chapter leases certain office space and equipment under noncancelable operating leases expiring in various years through 2013. Rental expense totaled \$44,028 and \$44,488 in 2009 and 2008, respectively. Future minimum payments under the noncancelable operating leases are as follows:

2010	\$	36,444
2011		36,444
2012		34,328
2013		<u>21,769</u>
Total	\$	<u>128,985</u>

Note 8 - Net Assets

The Chapter has unrestricted, temporarily restricted, and permanently restricted net assets. These assets have the following restrictions, as specified by the donor or the board of directors as of June 30:

	<u>2009</u>	<u>2008</u>
Unrestricted:		
Property and equipment	\$ 3,926,830	\$ 3,948,785
Undesignated	296,286	2,772,224
Due from National - Charitable annuities	<u>628,058</u>	<u>930,715</u>
Total unrestricted	<u>\$ 4,851,174</u>	<u>\$ 7,651,724</u>

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 8 - Net Assets (Continued)

	<u>2009</u>	<u>2008</u>
Temporarily restricted - Program and time restrictions:		
Disaster services	\$ 887,795	\$ 993,136
Health services	168,229	171,245
Support services	443,501	739,168
Total temporarily restricted	<u>\$ 1,499,525</u>	<u>\$ 1,903,549</u>
Permanently restricted:		
General operations	\$ 4,839,475	\$ 3,994,160
Disaster services	-	112,408
Other programs	-	540,897
Due from National - Charitable annuities	321,723	522,407
Total permanently restricted	<u>\$ 5,161,198</u>	<u>\$ 5,169,872</u>

Temporarily restricted net assets of \$1,990,675 and \$2,643,694 were released to unrestricted net assets by incurring expenses satisfying the program and time restrictions during the fiscal years ended June 30, 2009 and 2008, respectively.

During the year ended June 30, 2009, the former Ashland County Chapter of the American Red Cross became a Certified Service Delivery Unit (CSDU) of the Greater Cleveland Chapter of the American Red Cross. The Ashland County Chapter relinquished its charter, transferring fiduciary and management responsibilities to the Chapter. This resulted in the transfer of assets and liabilities to the Chapter in the net amount of \$99,768.

Note 9 - Donor-restricted Endowments

Net assets associated with donor-restricted endowment funds are classified and reported based on the existence of donor-imposed restrictions. Permanently restricted net assets of the Chapter include perpetual trusts, charitable annuities, and donor-restricted endowments.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 9 - Donor-restricted Endowments (Continued)

Information regarding only the donor-restricted endowments follows:

Interpretation of Relevant Law

All donor-restricted endowments are managed by ARC National Investment Committee (National). National has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chapter classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets as those amounts are appropriated for expenditure by the Chapter in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Chapter and National consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Chapter and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Chapter and National
- (7) The investment policies of the Chapter and National

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (182,068)	\$ -	\$ 2,991,974	\$ 2,809,906

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 9 - Donor-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 529,724	\$ -	\$ 2,979,212	\$ 3,508,936
Investment return -				
Investment loss (realized and unrealized)	(566,790)	-	-	(566,790)
Contributions	-	-	12,762	12,762
Appropriation of endowment assets for expenditure	(145,002)	-	-	(145,002)
Endowment net assets -				
End of year	<u>\$ (182,068)</u>	<u>\$ -</u>	<u>\$ 2,991,974</u>	<u>\$ 2,809,906</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 529,724</u>	<u>\$ -</u>	<u>\$ 2,979,212</u>	<u>\$ 3,508,936</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 682,357	\$ -	\$ 2,256,926	\$ 2,939,283
Investment loss (realized and unrealized)	(20,150)	-	-	(20,150)
Contributions	-	-	722,286	722,286
Appropriation of endowment assets for expenditure	(132,483)	-	-	(132,483)
Endowment net assets -				
End of year	<u>\$ 529,724</u>	<u>\$ -</u>	<u>\$ 2,979,212</u>	<u>\$ 3,508,936</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Chapter to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$182,068 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred combined with continued spending allocations as deemed appropriate by National. There were no such deficiencies as of June 30, 2008.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 9 - Donor-restricted Endowments (Continued)

Return Objectives and Risk Parameters

The Chapter has followed the determination made by National for investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets are the donor-restricted funds that the Chapter must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the relative index of each particular fund, while assuming a moderate level of investment risk. The Chapter expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 percent to 9 percent annually, as determined before distributions are made under the spending policy. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, National 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). National targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Annually, National approves a spending policy for endowment distributions for the following year. In establishing this policy, National considered the long-term expected return on the endowments. Accordingly, over the long term, the Chapter expects the current spending policy to allow its endowment to grow at an average of 4.0 percent to 4.5 percent annually. This is consistent with the Chapter's and National's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Note 10 - Retirement Plan

The Chapter participates in a defined benefit retirement plan administered by The American Red Cross Retirement System (the "Plan") which covers substantially all employees. Chapter participation in the Plan is voluntary; however, most entities with paid employees have elected to join the Plan.

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 by the employer. Voluntary contributions may be made by active members to fund an optional annuity benefit. Defined benefits are based on years of benefit service, age, and the employee's final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months' service before retirement.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 10 - Retirement Plan (Continued)

ARC is a single corporate legal entity composed of local chapters, regional blood services, the national sector, and other various operating units. Accordingly, the Plan includes numerous participating chapters and regional blood services. It is not practicable for the actuary to compute accumulated and projected benefit obligations for individual chapters or blood services regions. Accumulated and projected benefit obligations and other required disclosures for the entire ARC (including all participating local chapters, regional blood services, the national sector, and other various operating units) are presented in the consolidated financial statements of ARC. The Chapter contributed \$103,613 and \$116,406 to the Plan under a predetermined plan set by ARC for the fiscal years ended June 30, 2009 and 2008, respectively.

The Chapter also participates in The American Red Cross Savings Plan (the "Savings Plan"). Under the Savings Plan, an employee (immediately upon hire) can contribute up to the combined pretax and after-tax maximum as allowed by the Savings Plan and the applicable tax law. The Chapter matched 100 percent of the first 4 percent of pay contributed through February 2009. Effective March 2009, the Chapter suspended the employer match through local board resolution. The Chapter matched \$45,941 and \$87,268 for the fiscal years ended June 30, 2009 and 2008, respectively. Employees are immediately 100 percent vested in both the employee and employer contributions.

Note 11 - Other Postretirement Benefits

ARC provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and employer units pay a portion of premium costs and medical and dental plans pay a stated percentage of expenses reduced by deductibles and other coverage. ARC has the right to modify cost-sharing provisions at any time. Through December 31, 2008, each retiree and spouse who participates in the For Your Benefit healthcare coverage had a portion of the premium paid by the Chapter. Effective January 1, 2009, the Chapter discontinued contributions for the healthcare premiums. In addition, the Chapter provides \$5,000 of life insurance coverage for each retiree. Costs for all postretirement benefits are expensed when incurred by the Chapter. The Chapter incurred other postretirement costs of \$5,804 and \$5,545 for the fiscal years ended June 30, 2009 and 2008, respectively.

Other postretirement benefits are accrued over the period the employee provides services to the organization. Since ARC is one corporate entity and most retirees participate in the single Red Cross benefits plan, providing separate disclosures for retirees associated with individual chapters or blood services regions is not practicable. Annual other postretirement benefits expenses are recorded and disclosed for the entire ARC in its consolidated financial statements.

Greater Cleveland Chapter of The American Red Cross

Notes to Financial Statements June 30, 2009 and 2008

Note 11 - Other Postretirement Benefits (Continued)

ARC recognizes and records the actuarially determined liability for the present value of future benefits for retirees, their beneficiaries, and dependents. The liability for future benefits for all participants is recorded by ARC on a consolidated basis. ARC postretirement benefit plans are unfunded.

Note 12 - Allocation of Joint Costs

Joint costs represent certain costs incurred by the Chapter related to activities that include fund-raising. These costs have been allocated to functional categories as follows:

	<u>2009</u>	<u>2008</u>
Program services:		
Disaster services	\$ 172,016	\$ 139,113
Health services	357,704	321,468
Armed forces	211	-
Community services	-	6,398
Financial development	<u>898,336</u>	<u>685,942</u>
Total	<u>\$ 1,428,267</u>	<u>\$ 1,152,921</u>