Financial Overview FY 2002*

Fiscal year 2002 was a year accented by many challenges. No one could have predicted the significance of the public response to the September 11, 2001, terrorist attacks and, in turn, the ability of the American Red Cross to react with flexibility and compassion to the needs of thousands of victims of that national tragedy. On that day, Red Cross chapters in and around New York City, Washington, D.C. and Pennsylvania responded immediately to help victims, their families and rescue workers. Concurrently, the public and corporate community responded with an outpouring of monetary and in-kind giving unprecedented in the history of Red Cross. When the fiscal year ended on June 30, 2002, the Red Cross had received over $1 billion in monetary and in-kind donations and had incurred expenses of $643 million of which 91 percent represented direct assistance and services to victims and disaster responders. A total of $419.6 million remained unspent at June 30, 2002, but all of the funds were committed to programs of financial assistance to people directly impacted by the disaster, as well as long-term mental health, health and other programs that will provide assistance for years to come. Additional information regarding the Red Cross response to September 11 can be found in footnote 12 to the audited financial statements that follow this overview. Also, Red Cross fiscal accountability measures are highlighted on page 15.

Red Cross Structure

The Red Cross is a humanitarian organization, led by volunteers, whose mission is to provide relief to victims of disasters and help people prevent, prepare for and respond to emergencies. It accomplishes this mission through Chapter Services, Biomedical Services and national headquarters operations. Chapter Services consists of approximately 1,000 chapters located in communities throughout the United States. The chapters are primarily supported by charitable contributions, investment income and fees for health and safety and other courses. The chapters, with support from and in collaboration with national headquarters, provide services in response to disasters such as floods, single family and multi-dwelling fires, tornadoes, hurricanes and the like. The chapters also provide community education in CPR, water safety, automated external defibrillation and first aid. Much of the work of Chapter Services is accomplished by volunteers who work in partnership with paid professional staff.

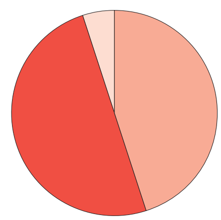
Biomedical Services is an activity that is fiscally and operationally separate from Chapter Services and consists primarily of 36 Blood Services regions located across the United States. The regions' primary purpose is to collect, process and distribute blood and blood products to hospitals and medical centers. Virtually all of the expenses of Biomedical Services are covered by revenues from the sale of products and services. National headquarters provides management oversight to the chapters and Biomedical Services, as well as providing corporate services in areas such as insurance, finance, audit, legal, human resources, communication and marketing, information technology and fund raising. National headquarters also coordinates the international activities of the organization.

The Red Cross Board of Governors formulates policy and delegates governance authority to local chapter boards of directors, consistent with corporate policy and external regulatory bodies. This decentralized responsibility for service delivery, combined with centralized policy and guidance, enables the Red Cross to give immediate, effective and efficient assistance.

Sources of Financial Support

Red Cross operating funds come from three main funding sources: contributions, revenues from products and services and other sources. Total Red Cross operating revenues and gains for fiscal year 2002 were $4.117 billion.

Operating Revenues and Gains



Contributions ($1,864,000,000) **45%**

(includes United Way, domestic and international disaster relief, September 11 relief, legacies, grants and all other monetary and in-kind contributions)

Investment Income and Other ($192,000,000) **5%**

(includes investment income, exchange contracts and other revenues)

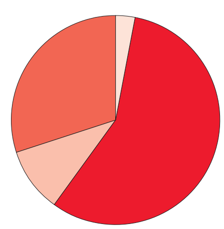
Products and Services ($2,061,000,000) **50%**

(cost recovery, including course fees and materials, whole blood and components and tissue services)

Contributions

Contributions of $1.864 billion comprise 45 percent of Red Cross support.

Contributions



Donated Materials and Services ($59,000,000) **3%**

Contributions for Domestic and International Relief, General Operations and Endowment Gifts ($561,000,000) **30%**

United Way and Combined Federal Campaign ($188,000,000) **10%**

Liberty Disaster Relief-September 11 Monetary and In-Kind Response ($1,056,000,000) **57%**

* July 1, 2001—June 30, 2002.

The sources of contributions in any one year can fluctuate dramatically, depending upon the scope of disaster relief activities and the public's response to requests for support. This was never more evident than during the public and corporate response to the September 11 terrorist attacks, which produced over $1 billion in financial and in-kind contributions. Monetary contributions for disaster relief, general operations and permanently restricted endowments totaled $561 million, or 30 percent of total contributions. Federated fund-raising efforts by United Way and the Combined Federal Campaign, which also support general operations, amounted to $188 million, or 10 percent of all contributions. The remaining 3 percent, or $59 million, represents the value of contributed services and materials, a critical component of Red Cross service delivery efforts.

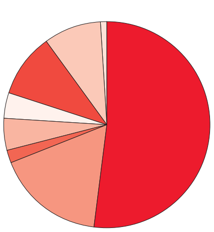
Products and Services

Traditional Red Cross emergency services are provided at no cost to the recipient. However, Red Cross programs have fee-based structures in which fees pay for the costs of materials, facilities and staff that are required to produce reliable and available products and services. Products and services revenues of $2.061 billion are 50 percent of Red Cross support and include fees charged for products, materials and courses, primarily through Biomedical Services and Health and Safety Services programs. Biomedical Services collects, tests and distributes nearly half of the nation's blood and blood components. Whole blood and components such as red cells, platelets and plasma, as well as plasma derivatives such as serum albumin and anti-hemophilic factor, are some of the critical life-sustaining blood products provided by the Red Cross. When donated blood is collected, it undergoes a battery of complex tests to screen for the HIV antibody and a number of other infectious diseases, including different strains of hepatitis. The Red Cross also provides life-sustaining bone and tissue products through its network of tissue units. Last year, Biomedical Services received $1.924 billion in fees, primarily from health care providers for collecting, testing and distributing blood and tissue products.

Investment Income and Other

Other revenue of $192 million, or 5 percent of Red Cross support, consists of contracts for delivering various program services and investment income from endowment and Board-designated reserve funds.

Operating Expenses



- **Biomedical** 52%
- **International** 1%
- **Disaster Services and Relief** 9%
- **Health, Safety and Community Services** 10%
- **Fund Raising** 4%
- **Management and General** 5%
- **Armed Forces Emergency Services** 2%
- **Liberty Disaster Relief September 11 Response** 17%

Expenses

Total Red Cross operating expenses for the year were $3.571 billion. Expenses incurred for Biomedical Services ($1.873 billion), Liberty Disaster Relief-September 11 Response ($618 million) and Disaster Services ($308 million) made up 78 percent of total Red Cross expenses for fiscal year 2002.

Biomedical Services

Red Cross Biomedical Services provides a variety of life-sustaining blood, plasma and tissue products to those in need. Significant investments are made annually for ongoing working capital requirements, facility maintenance and renovations and improved technical equipment. When viewed as a separate operation, Biomedical Services generated an $86.9 million surplus, or 4.4 percent of its total revenues. This surplus is used to fund critical capital expenditures for facilities and equipment as well as maintaining blood inventories that are adequate to respond to emergencies.

Liberty Disaster Relief – September 11 Response

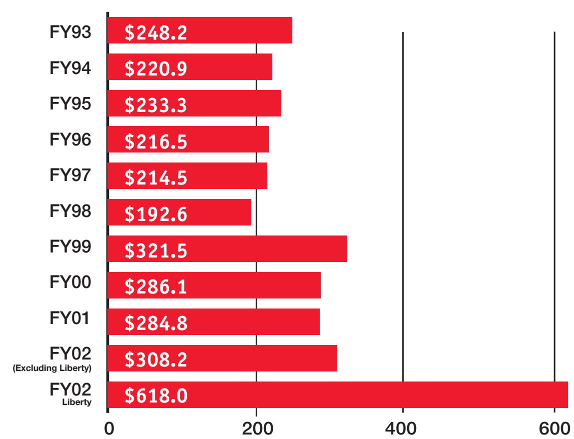
As noted earlier, the response to those impacted by the September 11 terrorist attacks was immediate and will enable the Red Cross to continue to address people's needs for several years. Summarized below are the types of assistance rendered, with expenses through June 30, 2002:

(In millions)	
Direct financial assistance	
Families of the deceased and seriously injured	$177.4
Displaced residents, economically affected individuals and disaster responders	279.4
Long-term services to those directly affected	.3
Immediate disaster relief	129.1
Direct support	31.7
Total program costs	617.9
Fund raising and donation processing (includes donated advertising worth $19.7)	25.4
Total expenses	**$643.3**

Disaster Services

Disaster services were provided in all 50 states as well as offshore U.S. territories and possessions. Disaster costs include assistance provided to victims of fires, tornadoes, floods, transportation incidents and other natural or man-made disasters, as well as the cost of assisting victims of international disasters.

Disaster Services Expenses: A 10-Year History



Financial Overview

Funding Disaster Services

Disaster fund raising is a requirement of all Red Cross chapters. Policy dictates that chapters raise funds to meet the cost of disaster relief operations within their jurisdiction. Corporate policy also states that each chapter affected by a major disaster is obligated to initiate immediate fund-raising efforts. Consequently, where disasters are of significant magnitude, or involve many chapters on a wider geographic basis, the responsibility for fund raising and administration becomes a partnership between chapters across the state and national headquarters. In large disaster situations, a toll-free telephone number is activated as well as a national post office box address, and appeals are made on a regional or national basis. In addition, secure donations are solicited online through our Internet site. Public donations received from major disaster appeals are, by policy, forwarded for deposit to national headquarters, which is accountable for their administration. Contributions restricted by donors for specific disaster operations or for the Disaster Relief Fund are spent in accordance with donor wishes. In rare instances where restricted contributions exceed the cost of disaster relief as specified by the donor, such contributions are held by the Red Cross for ongoing disaster assistance in accordance with donor wishes in the affected area or region. When disasters occur, the Red Cross responds to victims' needs immediately and is totally dependent upon the generosity of the public to help pay the cost of relief. The vast majority of disaster expenses consist of direct relief to victims in the form of food, shelter and clothing, as well as basic household furnishings such as bedding. Other costs include the expenses of staff who deliver and support these critical services.

Debt and Borrowing Capacity

The ability of the Red Cross to meet day-to-day obligations is reflected primarily in its working capital position and the financial flexibility to borrow funds for emergency needs and future capital requirements. As of June 30, 2002, the Red Cross reported $397 million of debt, borrowed primarily to fund investments in equipment, systems and building improvements, which is a decrease of $53 million from the previous year. The debt-to-net assets ratio as of June 30, 2002, was 15.4 percent, well within existing creditor debt covenants.

Joint Costs

For the year ended June 30, 2002, the Organization incurred "joint costs" of $4.4 million. Joint costs relate to program and general informational materials and activities that also include a fund-raising appeal. Of those joint costs, $2.0 million was allocated to fund raising, $0.8 million to disaster services, $0.7 million to health and safety services, $0.4 million to armed forces emergency services and $0.5 million to other services.

Fiscal Accountability

American Red Cross management is responsible for all financial statements in this report, which conform to generally accepted accounting principles. The financial statements in this report show the consolidated financial results of the Red Cross network of service units and the cost of delivering all Red Cross services for the fiscal year ended June 30, 2002. The financial report includes:

- A Consolidated Statement of Financial Position (page 19).
- A Consolidated Statement of Activities (page 20).
- A Consolidated Statement of Functional Expenses (page 21).
- A Consolidated Statement of Cash Flows (page 22).

The Red Cross is committed to making the most effective and efficient use of all the resources it receives and fully discloses in this annual report financial information pertaining to the broad scope of Red Cross programs and activities.

Federal statutes require that the Red Cross make a report of income and expense to the Department of Defense as soon as is practical after July 1 each year. The Red Cross provides not only a report of income and expense, but includes the full array of financial statements and disclosures required by generally accepted accounting principles. The Red Cross has engaged the internationally recognized firm of KPMG LLP, certified public accountants, as the principal auditor. They audit the financial statements and provide their auditors' report, which is presented on page 18.

In addition to KPMG LLP, the Secretary of Defense has directed the U.S. Army Audit Agency to review the work of the principal auditor to ensure that the audit is performed in accordance with generally accepted auditing standards and that they can rely on the principal auditors' work. The U.S. Army Audit Agency report is presented on page 17.

Red Cross management ensures that an organization-wide internal control structure is in place to provide reasonable assurance that financial records are reliable and that assets are protected. Internal auditors monitor compliance with established policies and procedures, the internal control structure is continually evaluated and accounting standards are disseminated throughout the organization to assure the integrity of accounting and consistency in reporting.

The events of September 11, 2001, required a heightened level of awareness regarding financial controls throughout the Red Cross system. Red Cross management, along with Board of Governors oversight, instituted a comprehensive array of financial directives, audit reviews and reports to ensure to the greatest extent possible that donor contributions were properly accounted for and that expenditures were in accordance with donor restrictions. Listed below are some of the key financial reporting and control measures implemented specifically to address the response to September 11:

- Immediately provided on-site finance and audit staff in New York City and issued supplemental accounting and internal control guidance to all chapters.
- Required comprehensive contribution testing by independent auditors at more than 800 chapter locations prior to October 31, 2001.
- Provided weekly financial reports on the Red Cross public Web site to ensure accountability for funds spent.
- Received an unqualified opinion from KPMG LLP on the Statement of Revenue Collected and Expenses Paid for the period September 11, 2001, to October 31, 2001, and posted the audited statement on the Red Cross public Web site.
- Appointed Senator George Mitchell as independent overseer of the Liberty Disaster Relief Fund and issued quarterly reports on January 31, April 30, August 1 and November 1, 2002, regarding the status of funds spent and committed, which were posted on the Red Cross public Web site.
- Received an unqualified opinion from KPMG LLP on the Statement of Activities and Statement of Functional Expenses for the period September 11, 2001, to June 30, 2002.

Annually, the Board of Governors appoints an independent Audit Committee. This committee reviews matters affecting Red Cross finances, especially those pertaining to the internal control structure, audits and supplemental reviews of Red Cross September 11 financial activity. KPMG LLP and U.S. Army Audit Agency auditors have unrestricted access to the committee to discuss the results of their work and to give their assessments concerning the adequacy of internal controls and the quality of financial reporting. The Audit Committee Chairman's letter is presented as a part of this financial report.

John D. Campbell
Chief Financial Officer and
Senior Vice President

Audit Committee Chairman's Letter

The Audit Committee (the "Committee") of the Board of Governors is currently composed of seven independent directors who are not officers or employees of the American Red Cross (the "Organization"). The Committee oversees the financial reporting process of the Organization on behalf of the Board of Governors.

During the fiscal year ended June 30, 2002, the Committee held four formal meetings. In addition, I interacted frequently with internal and external auditors regarding reviews and tests of control procedures related to the Organization's response to September 11 and kept the Committee and the Executive Committee of the Board of Governors informed of the results of those reviews.

The Committee has a formal written charter, which is annually reviewed. In fulfilling its responsibilities, the Committee recommends the selection of the Organization's independent certified public accountants to the Board of Governors and reviews the independence of the selected firm. The Committee discussed with the internal auditors, the independent certified public accountants and the U.S. Army Audit Agency (the "auditors") the overall scope and specific plans for their respective audits. The Committee also reviewed the Organization's consolidated financial statements with management and recommended to the Board of Governors that such audited financial statements be included in the annual report. The Committee met regularly with the Organization's chief financial officer and auditors to review internal controls, audit results, accounting principles and practices and the overall quality of the Organization's financial reporting. Meetings without management present were also held and designed to facilitate any private communications with the Committee desired by the auditors.

Kathryn A. Forbes
Chairman
Audit Committee

Independent Auditor's Report

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Auditor General
3101 Park Center Drive
Alexandria, VA 22302-1596

A-2003-0032-FFG

October 30, 2002

The Act of Congress that incorporated the American Red Cross, as implemented by Department of Defense Directive 1330.5 and Army Regulation 930-5, requires that the U.S. Army Audit Agency perform an annual audit of the 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 2002 financial statements. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our available resources, we reviewed the principal auditor's work and reports.

We reviewed KPMG LLP's audit of the consolidated financial statements of the American Red Cross for the fiscal year ended June 30, 2002. In the opinion of the principal auditor, based on its audit and the reports of other auditors, the American Red Cross' 2002 consolidated statement of financial position presents fairly, in all material respects, its financial position as of June 30, 2002 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, in conformity with generally accepted accounting principles.

We conducted our review in accordance with generally accepted government auditing standards. Those standards require that we determine the reasonableness of the principal auditor's work and the extent to which we could rely on it. We reviewed the financial statements and auditor's report to evaluate compliance with generally accepted accounting principles and auditing standards. Our review included the auditors' qualifications, independence, quality control methods, planning, and evidence. We also tested the auditor's work to evaluate the auditor's understanding of the internal control structure, and the nature, timing, and extent of the audit work performed.

Nothing came to our attention to indicate that KPMG LLP's opinion on the American Red Cross's 2002 financial statements is inappropriate or cannot be relied on.

We believe that the financial statements, together with KPMG LLP's opinion and our review of that work, furnish Congress a dependable basis for evaluating the financial condition of the American Red Cross.

Francis E. Reardon

FRANCIS E. REARDON, CPA
The Auditor General

Independent Auditors' Report

KPMG

The Board of Governors
The American Red Cross:

We have audited the accompanying consolidated statement of financial position of the American Red Cross as of June 30, 2002, 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 management of the American Red Cross. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of certain chapters, which statements reflect total assets constituting 21 percent and total revenues and gains constituting 12 percent, respectively, of the consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for such chapters, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the American Red Cross' 2001 consolidated financial statements and, in our report dated October 5, 2001, 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 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Red Cross as of June 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

McLean, VA
October 4, 2002

Consolidated Statement of Financial Position

June 30, 2002
(with summarized information as of June 30, 2001)
(In thousands)

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2002	Totals 2001
Current assets:					
Cash and cash equivalents	$ 146,247	$439,569	$ 1,386	$ 587,202	$ 177,492
Investments (Notes 8, 9, and 14)	309,913	11,050	12,514	333,477	355,090
Receivables, net of allowance for doubtful accounts of $19,604 in 2002 and $19,301 in 2001:					
Trade	304,543	15,258	-	319,801	317,767
Contributions, current portion (Note 2)	16,411	110,103	56	126,570	133,183
Other (Note 9)	-	-	15,825	15,825	9,302
Inventories, net of allowance for obsolescence of $7,750 in 2002 and $6,784 in 2001	197,252	6,402	-	203,654	190,272
Other assets	12,547	3,162	183	15,892	23,289
Total current assets	986,913	585,544	29,964	1,602,421	1,206,395
Investments (Notes 8, 9, and 14)	548,633	155,674	325,238	1,029,545	1,120,773
Contributions receivable (Note 2)	4,209	28,374	2,243	34,826	39,339
Prepaid pension costs (Note 11)	-	-	-	-	11,858
Land, buildings, and other property, net (Note 3)	823,541	-	-	823,541	733,177
Other assets	11,089	1,500	22,704	35,293	26,171
Total assets	2,374,385	771,092	380,149	3,525,626	3,137,713
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	287,209	9,453	-	296,662	293,476
Current portion of debt and capital leases (Notes 4 and 5)	39,894	-	-	39,894	89,372
Postretirement benefits (Note 11)	18,924	-	-	18,924	16,807
Other current liabilities (Note 9)	20,653	2,840	63	23,556	18,068
Total current liabilities	366,680	12,293	63	379,036	417,723
Debt and capital leases (Notes 4 and 5)	357,453	-	-	357,453	360,870
Pension and postretirement benefits (Note 11)	120,042	-	-	120,042	108,339
Other liabilities (Note 9)	92,623	1,180	20	93,823	86,644
Total liabilities	936,798	13,473	83	950,354	973,576
Net assets (Notes 6, 7, 10 and 12)	1,437,587	757,619	380,066	2,575,272	2,164,137
Commitments and contingencies (Notes 4, 5, 13 and 14)					
Total liabilities and net assets	$2,374,385	$771,092	$380,149	$3,525,626	$3,137,713

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Activities

Year ended June 30, 2002
(with summarized information for the year ended June 30, 2001)
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2002	Totals 2001
Operating revenues and gains					
Public Support:					
United Way and other federated	$ 65,616	$122,452	$ -	$ 188,068	$ 205,549
Disaster relief (Note 10)	-	133,376	-	133,376	84,601
Liberty disaster relief - Sept 11 response (Note 12)	-	989,060	-	989,060	-
Legacies and bequests (Notes 7 and 9)	67,118	6,745	22,022	95,885	115,594
Services and materials (Note 12)	22,034	96,222	-	118,256	49,728
Grants (Note 12)	21,236	67,175	-	88,411	76,351
Other contributions	213,289	36,915	705	250,909	230,845
Products and services:					
Biomedical	1,924,077	-	-	1,924,077	1,686,090
Program materials	136,582	906	-	137,488	121,724
Contracts	58,171	-	-	58,171	50,175
Investment income (Notes 8 and 12)	81,394	1,069	-	82,463	81,405
Other revenues	49,089	2,008	-	51,097	40,844
Net assets released from restrictions	1,035,410	(1,035,410)	-	-	-
Total operating revenues and gains	3,674,016	420,518	22,727	4,117,261	2,742,906
Operating expenses:					
Program services:					
Armed Forces Emergency Services	61,513	-	-	61,513	65,756
Disaster services	308,156	-	-	308,156	284,822
Liberty disaster relief - Sept 11 response (Note 12)	617,960	-	-	617,960	-
Biomedical services (Note 13)	1,872,967	-	-	1,872,967	1,699,978
Health and safety services	213,614	-	-	213,614	203,058
Community services	152,902	-	-	152,902	150,108
International services	32,736	-	-	32,736	45,238
Total program services	3,259,848	-	-	3,259,848	2,448,960
Supporting services:					
Fund raising (Note 12)	136,901	-	-	136,901	108,616
Management and general	174,182	-	-	174,182	154,726
Total supporting services	311,083	-	-	311,083	263,342
Total operating expenses	3,570,931	-	-	3,570,931	2,712,302
Change in net assets from operations	103,085	420,518	22,727	546,330	30,604
Nonoperating gains/(losses) (Notes 4 and 8)	(131,900)	(548)	(2,747)	(135,195)	(63,876)
Cumulative effect of accounting change (Note 4)	-	-	-	-	2,201
Change in net assets	(28,815)	419,970	19,980	411,135	(31,071)
Net assets, beginning of year	1,466,402	337,649	360,086	2,164,137	2,195,208
Net assets, end of year	$1,437,587	$757,619	$380,066	$2,575,272	$2,164,137

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Functional Expenses

Year ended June 30, 2002
(with summarized information for the year ended June 30, 2001)
(In thousands)

	Program Services							
	Armed Forces Emergency Services	Disaster Services	Liberty Disaster Relief - Sept 11 Response	Biomedical Services	Health and Safety Services	Community Services	International Services	Total Program Services
Salaries and wages	$35,329	$ 76,450	$ 4,966	$ 749,046	$100,866	$ 66,654	$ 8,340	$1,041,651
Employee benefits	6,701	16,758	773	165,697	19,894	13,698	1,706	225,227
Subtotal	42,030	93,208	5,739	914,743	120,760	80,352	10,046	1,266,878
Travel and maintenance	1,673	20,479	32,601	35,515	5,068	4,111	1,826	101,273
Equipment maintenance and rental	1,173	11,105	11,387	62,322	5,005	5,950	515	97,457
Supplies and materials	3,394	25,095	10,416	417,349	44,001	21,937	849	523,041
Contractual services	8,252	42,887	61,479	379,081	27,643	20,859	1,788	541,989
Financial and material assistance	2,803	106,406	496,338	14,132	3,528	13,811	17,236	654,254
Depreciation and amortization	2,188	8,976	-	49,825	7,609	5,882	476	74,956
Total expenses	$61,513	$308,156	$617,960	$1,872,967	$213,614	$152,902	$32,736	$3,259,848

	Supporting Services			Total Operating Expenses	
	Fund Raising	Management and General	Total Supporting Services	2002	2001
Salaries and wages	$ 42,260	$ 81,174	$123,434	$1,165,085	$1,046,171
Employee benefits	8,436	16,145	24,581	249,808	199,204
Subtotal	50,696	97,319	148,015	1,414,893	1,245,375
Travel and maintenance	3,708	6,466	10,174	111,447	78,208
Equipment maintenance and rental	1,902	5,260	7,162	104,619	84,227
Supplies and materials	35,167	6,494	41,661	564,702	477,547
Contractual services	41,147	44,991	86,138	628,127	563,436
Financial and material assistance	1,713	4,285	5,998	660,252	175,994
Depreciation and amortization	2,568	9,367	11,935	86,891	87,515
Total expenses	$136,901	$174,182	$311,083	$3,570,931	$2,712,302

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended June 30, 2002
(with summarized information for the year ended June 30, 2001)
(In thousands)

	2002	2001
Cash flows from operating activities:		
Change in net assets	$411,135	$(31,071)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,891	87,515
Provision for doubtful accounts receivable	8,249	10,222
Provision for obsolete inventory	18,959	3,813
Net gain on sales of property	(948)	(903)
Net investment losses	127,912	43,758
Cumulative effect of accounting change	-	(2,201)
Permanently restricted contributions and income	(22,727)	(51,393)
Changes in operating assets and liabilities:		
Increases in receivables	(5,677)	(65,330)
Increases in inventories	(32,342)	(29,439)
Increases in other assets	(1,725)	(2,491)
Decreases (increases) in prepaid pension costs	11,858	(1,324)
Increases in accounts payable and accrued expenses	3,186	35,895
Increases in other liabilities	28,011	589
Increases in pension and postretirement benefits	2,117	9,215
Net cash provided by operating activities	634,899	6,855
Cash flows from investing activities:		
Purchases of property	(175,421)	(101,136)
Proceeds from sales of property	4,653	6,343
Purchases of investments	(182,132)	(73,468)
Proceeds from sales of investments	170,226	167,687
Net cash used in investing activities	(182,674)	(574)
Cash flows from financing activities:		
Permanently restricted contributions and income	15,921	18,887
Proceeds from borrowings	15,369	31,110
Repayments of debt	(73,805)	(24,084)
Net cash (used in) provided by financing activities	(42,515)	25,913
Net increase in cash and cash equivalents	409,710	32,194
Cash and cash equivalents, beginning of year	177,492	145,298
Cash and cash equivalents, end of year	$587,202	$177,492
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 20,963	$ 22,541
Noncash investing and financing transactions:		
Acquisition of equipment under capital lease agreements	5,540	851
Donated stock and beneficial interest in perpetual trust	6,806	36,178

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization and Basis of Presentation

The American 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 (National Sector) operations, biomedical services operations, and chartered local chapters. Also included in the consolidated financial statements are Special Project Funds invested for the benefit of all Red Cross operating units, and the net assets and operations of Boardman Indemnity Ltd., a 100 percent-owned captive insurance subsidiary. All significant intra-organizational accounts and transactions have been eliminated.

Program activities include armed forces emergency services, health and safety services, disaster services, community services, international services, biomedical services and the Organization's response to September 11. Biomedical services includes activities associated with the collection, processing, testing, and distribution of whole blood and components, tissue, and plasma derivative products at 36 local blood services region operations, nine national testing laboratories, a biomedical research facility, and related national support functions.

Revenues, expenses, 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, 2001, from which the summarized information was derived.

Use of Estimates

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

Cash Equivalents

The Organization considers all highly liquid investments purchased with an average maturity of three months or less to be cash equivalents. Cash equivalents consisted of money market mutual funds and overnight investments of approximately $429 million and $32 million as of June 30, 2002 and 2001, respectively.

Investments

Investments are reported at fair value. The separately managed Endowment Fund accumulates realized gains and losses on security transactions which are available to meet current expenses to the extent approved by the Board of Governors (Note 7). Amounts annually available for expenditure are based on the Board of Governors' approved spending rate used under the total-return method.

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

The Organization also invests certain operating funds in the Select Investment Program (Program), a family of commingled funds managed exclusively for the American Red Cross. The Organization participates in the Program by purchasing units in various funds at the current market value.

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

Derivative Financial Instruments

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

Fair Values of Financial Instruments

Various methods and assumptions were used to estimate the fair value of each class of financial instruments. Cash and cash equivalents are valued at their carrying amount due to their short maturities. Investments are valued at quoted market prices. Debt is valued at rates currently available to the Organization for issuances with similar terms and remaining maturities. Interest rate swap agreements are valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in those agreements.

The estimated fair values of the Organization's financial instruments were as follows at June 30, 2002 and 2001:

(In thousands)	2002		2001	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Cash and cash equivalents	$587,202	$587,202	$177,492	$177,492
Investments:				
Current	333,477	333,477	355,090	355,090
Noncurrent	1,029,545	1,029,545	1,120,773	1,120,773
Liabilities:				
Current debt	39,894	39,894	89,372	89,372
Noncurrent debt	357,453	371,044	360,870	365,538
Interest rate swap agreements	6,018	6,018	2,376	2,376

Inventories
Inventories of supplies purchased for use in program and supporting services are carried at the lower of first-in, first-out cost or market. Plasma derivatives, whole blood and its components and tissue products are valued at the lower of average cost or market.

Land, Buildings and Other Property
Purchases of land, buildings and other property having a unit cost per established guidelines and a useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair market 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.

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 to 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

Insurance
The Organization is self-insured up to certain limits through its wholly owned insurance subsidiary, Boardman Indemnity Ltd. (Boardman). Boardman has reinsurance arrangements in effect to limit per occurrence exposure. The remaining uninsured liabilities for outstanding losses and incurred but not reported claims have been determined based on actuarial studies and are reflected as other liabilities in the accompanying consolidated statement of financial position.

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

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

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified 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.

Contributed Services and Materials
Contributed services are reported in the financial statements for voluntary donations of services when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. The Organization recorded contributed services revenue, for the years ended June 30, 2002 and 2001, of approximately $24 million and $5 million, respectively, mostly in support of the Liberty disaster relief effort - September 11 response and the disaster services program.

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

Research and Development Costs
Since 1956, the American Red Cross has engaged in blood research to further enhance the safety of the blood supply. Research efforts have been directed toward enhancing patient care by improving knowledge of blood and blood products; investigating the nature of the transmission and treatment of bloodborne diseases; developing safer blood collection, testing and processing instruments and procedures; and introducing new or improved programs and services. For the years ended June 30, 2002 and 2001, approximately $35 million and $34 million, respectively, was expended on research and development efforts by biomedical services.

Income Taxes
The American Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. A tax payment of $58,023 has been made for estimated taxes on unrelated business activities for the year ended June 30, 2002. The Organization also recorded a tax liability of $13,622 for the year ended June 30, 2001, for unrelated business activity.

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2002 and 2001:

(In thousands)	2002	2001
Amount receivable within one year	$135,666	$141,944
Amount receivable in 1 to 5 years	34,826	39,338
Total contributions receivable before allowance for uncollectible amounts	170,492	181,282
Less allowance for uncollectible amounts	(9,096)	(8,760)
Contributions receivable, net	161,396	172,522
Less current portion	(126,570)	(133,183)
Contributions receivable, net, noncurrent	$ 34,826	$ 39,339

Amounts presented above have been discounted to present value using rates averaging approximately 3 percent. The American Red Cross had commitments from donors for conditional contributions approximating $12 million and $15 million at June 30, 2002 and 2001, respectively. These pledges will be accrued in future periods as the conditions are met.

(3) Land, Buildings and Other Property

The cost and accumulated depreciation of land, buildings and other property were as follows at June 30, 2002 and 2001:

(In thousands)	2002	2001
Land	$ 65,305	$ 68,403
Buildings and improvements	686,193	670,909
Equipment and software	578,732	545,262
Buildings and equipment under capital lease	24,575	18,885
Total cost of assets placed in service	1,354,805	1,303,459
Less accumulated depreciation and amortization	(663,368)	(612,195)
Construction-in-progress	132,104	41,913
Land, buildings and other property, net	$823,541	$733,177

(4) Debt

Debt consists of the following at June 30, 2002 and 2001:

(In thousands)	2002	2001
Lines of credit with various banks, due in 2003, bearing interest at various rates averaging 2.7% in 2002 and 6.1% in 2001	$ 20,000	$ 70,000
Various notes, mortgages and bonds payable, bearing interest at rates ranging from 1.4% to 7.7% due 2003 through 2030, repayment terms generally require monthly payments of interest and annual principal reductions, and are generally backed only by the full faith and credit of the American Red Cross	364,809	369,682
Total bonds and notes payable	384,809	439,682
Obligations under capital leases (Note 5)	12,538	10,560
Total debt	397,347	450,242
Less current portion	(39,894)	(89,372)
Debt, noncurrent portion	$357,453	$360,870

Certain bonds are subject to redemption prior to maturity at the option of the Organization. Additionally, registered owners of these bonds may demand repurchase of the bonds by the bond agent or the depository for an amount equal to the principal price plus accrued interest. Letters of credit or standby credit facilities have been established with multiple banks in the aggregate amount of $219 million and $203 million as of June 30, 2002 and 2001, respectively, to provide liquidity in the event other funding is not available to repurchase these bonds. The depository and bond agent have the authority to use standby credit facilities for the repurchase of certain bonds. The standby credit facilities had not been used as of June 30, 2002 and 2001.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2002, are as follows

(In thousands)	
Years ending June 30:	
2003	$39,894
2004	48,204
2005	16,563
2006	15,845
2007	15,560
Thereafter	261,281
Total	$397,347

Interest expense was approximately $22 million and $23 million for the years ended June 30, 2002 and 2001, respectively.

Bank Lines of Credit

As of June 30, 2002 and 2001, respectively, $20 million and $70 million had been borrowed under lines of credit to support operations. The Organization maintained numerous uncommitted lines of credit with various banks for its working capital requirements.

Interest Rate Swap Agreements

Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. At June 30, 2002, the aggregate notional principal amount under the interest rate swap agreements, which mature at various dates through 2008, totaled $108 million. At June 30, 2002, the estimated fair value of the interest rate swap agreements was a liability of approximately $6 million.

The Organization applies the provisions of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. This standard requires certain derivative financial instruments to be recorded at fair value. The interest rate swap agreements described above are derivative instruments that are required to be recorded at fair value. The change in fair value on these interest rate swap agreements for the year ended June 30, 2002, was approximately a $4 million loss and is included as a nonoperating loss in the consolidated statement of activities.

Letters of Credit

The Organization had unused letters of credit outstanding of approximately $154 million at June 30, 2002.

(5) Leases

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

(In thousands)	**Operating**	**Capital**
2003	$41,237	$ 4,533
2004	29,446	3,433
2005	19,137	2,381
2006	8,335	1,454
2007	9,177	979
Thereafter	14,922	1,854
Total minimum lease payments	$ 122,254	14,634
Less amounts representing interest		(2,096)
Present value of net minimum lease payments		$12,538

Total rent expense was approximately $69 million and $56 million for the years ended June 30, 2002 and 2001, respectively.

(6) Net Assets

Unrestricted net assets consisted of the following at June 30, 2002 and 2001:

(In thousands)	**2002**	**2001**
Designated by the Board of Governors for:		
Disaster relief (Note 10)	$ 29,058	$ 28,192
Biomedical services	348,929	262,983
Endowment inflation adjustment reserve (Note 7)	77,300	74,100
Endowment distribution reserve (Note 7)	100,400	119,600
Funds functioning as endowment	167,449	229,941
Contingencies	59,776	67,426
Retiree health benefits	97,044	109,074
Special projects fund	79,007	91,296
Replacement and improvement of buildings and equipment	123,758	137,305
Other purposes	27,986	37,119
Undesignated	326,880	309,366
Total unrestricted net assets	$1,437,587	$1,466,402

In October 1988, the Board of Governors approved the establishment of two designated funds to provide future long-term benefits as described below:

Special Projects Fund – The Special Projects Fund is controlled by the Board of Governors, to be used for the humanitarian work of the Organization. As stipulated by the Board, approximately $79 million and $91 million at June 30, 2002 and 2001, respectively, functioned in a manner similar to an endowment whereby the principal amount generates income that is available for expenditures, subject to action by the Board of Governors. The Board approved approximately $7 million and $8 million of expenditures from this fund in fiscal years 2002 and 2001, respectively.

Retiree Health Benefits Fund – The Retiree Health Benefits Fund was established by the Board of Governors to fund a portion of premiums for retirees participating in the American Red Cross health benefits plan on a scale determined by years of service with the Organization. A total of approximately $5 million and $4 million was expended in fiscal years 2002 and 2001, respectively, in the form of health care premium subsidies. At June 30, 2002 and 2001, a total of $97 million and $109 million, respectively, remained designated by the Board of Governors to support future retiree medical costs.

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2002 and 2001:

(In thousands)	2002	2001
Disaster services	$ 77,300	$ 32,437
Liberty disaster relief - Sept. 11 response	419,641	-
Biomedical services	8,374	7,387
Health and safety services	4,319	4,052
International services	62,064	94,855
Community services	13,039	18,368
Buildings and equipment	31,426	25,944
Other specific purposes	23,045	20,819
For periods after June 30, 2002 and 2001, respectively	118,411	133,787
Total temporarily restricted net assets	$ 757,619	$ 337,649

Permanently restricted net assets consist primarily of endowed contributions (Note 7 below), the income from which is available to fund the following at June 30, 2002 and 2001:

(In thousands)	2002	2001
Disaster services	$ 7,600	$5,752
Other specific purposes	10,714	4,615
General operations	361,752	349,719
Total permanently restricted net assets	$380,066	$ 360,086

(7) Endowment Fund

The Organization has maintained a national Endowment Fund (Fund) since 1905 and has consistently promoted public gifts for the Fund with the understanding that the principal would be held inviolate and only the income used for current purposes.

Since 1910, the Fund has, by Act of Congress (36 U.S. Code Section 300109), been under the control of a separate Board of Trustees, appointed by the Board of Governors, who are required to keep and invest the Fund under their management. Since that date, as stated in the bylaws of the Organization, and because of public declarations as to their intended use, gifts to the American Red Cross National Sector under wills, trusts and similar instruments that do not direct some other use of such funds are recorded as permanently restricted to be kept and invested as such in perpetuity.

The Fund includes contributions, some of which were accepted with specific donor stipulation that the principal be maintained intact, until the occurrence of a specific event, or for a specific period. The Fund includes additional contributions not so stipulated, which resulted from appeals for endowment fund gifts to be managed as provided above. 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.

At June 30, 2002 and 2001, respectively, $178 million and $194 million of cumulative net realized gains on endowed investments were reported as unrestricted net assets. Of these amounts, as of June 30, 2002 and 2001, respectively, approximately $77 million and $74 million have been designated by the Board of Governors as an inflation adjustment reserve to protect donor corpus. This reserve increases each year at a rate equal to 75 percent of the increase in the Consumer Price Index applied against the book value of the original donor corpus. The remaining $100 million and $120 million as of June 30, 2002 and 2001, respectively, were designated as a distribution reserve to provide funds for operations in those years when net interest and dividends are less than the approved distribution rate.

Total-Return Method

The American Red Cross makes distributions from the Fund for current operations using the total-return method. Under the total-return method, fund distributions consist of net investment income and may, under certain conditions, include a portion of the cumulative realized gains. The Fund's Board of Trustees establishes a spending rate as a percentage of the three-year calendar moving average fair value of endowed funds at the beginning of each fiscal year. Distributions are made in an amount equal to the product of the fair value of endowed funds at the beginning of the year and the spending rate. To the extent that the distributions exceed net investment income, they are made from realized gains.

A spending rate of 5.5 percent for both fiscal years 2002 and 2001 resulted in total distributions related to endowment funds of approximately $25 million each year. Of these amounts, approximately $16 million represented utilization of realized gains for both of the years ended June 30, 2002 and 2001.

(8) Investments

The following schedule summarizes the composition of investment income for the years ended June 30, 2002 and 2001:

	2002			
(In thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 70,396	$1,234	$ -	$ 71,630
Net operating investment gains (losses)	10,998	(165)	-	10,833
Investment income available for operations	81,394	1,069	-	82,463
Less net nonoperating investment losses	(128,245)	(548)	(2,747)	(131,540)
Total return on investments	$(46,851)	$ 521	$(2,747)	$(49,077)

(In thousands)	2001 Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 67,800	$1,593	$ 72	$69,465
Net operating investment gains	11,309	199	432	11,940
Investment income available for operations	79,109	1,792	504	81,405
Less net nonoperating investment losses	(55,915)	(1,247)	(1,824)	(58,986)
Total return on investments	$ 23,194	$ 545	$(1,320)	$22,419

The aggregate carrying amount of investments was as follows at June 30, 2002 and 2001:

(In thousands)	2002	2001
U.S. government securities	$ 230,765	$ 182,486
Corporate bonds and notes	319,688	237,215
Common and preferred stocks	562,191	677,885
Mortgage and asset backed securities	59,239	157,746
Marketable and nonmarketable alternative funds	878	10,050
Money market and other	190,261	210,481
Total investments at fair value	1,363,022	1,475,863
Less current portion	(333,477)	(355,090)
Investments, noncurrent portion	$1,029,545	$1,120,773

(9) Split Interest Agreements

The Organization maintains split interest agreements in the form of charitable gift annuities, perpetual trusts held by third parties, charitable remainder trusts, and pooled income funds. Assets of split interest agreements of $117 million and $88 million are included in investments and other receivables on the consolidated statement of financial position at June 30, 2002 and 2001, respectively. The value of split interest agreements is measured as the Organization's fair value share of the assets. Liabilities associated with these agreements are $21 million, of which $4 million is included with other current liabilities and $17 million is included with other noncurrent liabilities on the consolidated statement of financial position.

(10) Disaster Relief Funds

Disaster Relief Fund

In accordance with procedures directed by the Board of Governors, any unspent unrestricted disaster relief funds at the end of a fiscal year are set aside for future disaster operations in the Disaster Relief Fund. Additionally, unspent contributions restricted by donors for disaster relief are also available for expenditure in future years.

The following is a summary of Disaster Relief Fund balances for the last 10 fiscal years:

(In thousands) Fiscal years:	Balance at June 30 Unrestricted Board designated	Donor restricted	Total
1993	$21,473	$42,731	$64,204
1994	39,345	67,114	106,459
1995	52,671	41,601	94,272
1996	60,858	11,679	72,537
1997	58,510	8,316	66,826
1998	81,424	11,835	93,259
1999	65,203	9,210	74,413
2000	55,084	6,196	61,280
2001	28,192	13,576	41,768
2002	29,058	53,972	83,030

The summary above does not include donor restricted funds associated with the Liberty Disaster Relief Fund – September 11 Response. As of June 30, 2002, donor restricted funds of approximately $420 million were held by the Organization for future expenditures for September 11 relief and response (Notes 6 and 12).

(11) Benefit Plans

Pension and Postretirement Plans

Employees of the American Red Cross, including participating local chapters, are covered by the Organization's pension plan (the Retirement System) after one year of employment.

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

Red Cross funding policy is to set the employer contribution rate at a percentage of covered payroll that is intended to fund toward a target range of not less than 105 percent and no more than 115 percent of the projected unit credit accrued liability. To the extent that the current funding is more or less than the target's upper bound of 115 percent, the difference is amortized over ten years in calculating the contribution rate. During fiscal years 2002 and 2001, the Organization contributed 1 percent in each year of covered payroll to the Retirement System.

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

The American Red Cross postretirement benefit plans are unfunded. However, as discussed in Note 6, the Board of Governors has designated $97 million of unrestricted net assets to fund a portion of premiums for retirees' postretirement medical benefits.

The following table presents the changes in benefit obligations, changes in plan assets and the composition of prepaid (accrued) benefit costs in the consolidated statements of financial position for the years ended June 30, 2002 and 2001:

	Pension benefits		Postretirement benefits	
(In thousands)	**2002**	**2001**	**2002**	**2001**
Changes in benefit obligations				
Benefit obligations at beginning of year	$ 937,545	$ 777,749	$147,393	$ 126,432
Service cost	56,240	46,478	6,324	5,031
Interest cost	71,580	64,205	10,910	10,086
Plan participants' contributions	6,109	5,821	-	-
Actuarial loss (gain)	14,393	67,935	(51,273)	13,436
Benefits paid	(27,178)	(24,643)	(8,528)	(7,592)
Benefit obligations at end of year	$1,058,689	$ 937,545	$104,826	$ 147,393
Changes in plan assets				
Fair value of plan assets at beginning of year	$1,116,871	$1,179,775	$ -	$ -
Actual return on plan assets	(105,311)	(52,352)	-	-
Employer contributions	8,706	8,270	-	-
Plan participants' contributions	6,109	5,821	-	-
Benefits paid	(27,178)	(24,643)	-	-
Fair value of plan assets at end of year	$ 999,197	$1,116,871	$ -	$ -
Prepaid (accrued) benefit costs				
Funded status	$(59,492)	$ 179,327	$(104,826)	$(147,393)
Unrecognized net actuarial (gain) loss	36,521	(190,931)	(46,184)	5,089
Unrecognized prior service cost	19,547	23,462	15,468	17,158
Prepaid (accrued) benefit costs	$ (3,424)	$ 11,858	$(135,542)	$(125,146)

Significant assumptions used in accounting for the plans as of June 30, 2002 and 2001, were:

	Pension benefits		Postretirement benefits	
	2002	**2001**	**2002**	**2001**
Discount rate	7.30%	7.90%	7.30%	7.30%
Expected return on plan assets	8.50%	8.50%	-	-
Rate of compensation increase	6.00%	6.00%	-	-

For measurement purposes, an 8.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2003. The rate was assumed to decrease to 5.5 percent for 2004 and remain at that level thereafter.

The components of net periodic benefit cost for the years ended June 30, 2002 and 2001, were:

	Pension benefits		Postretirement benefits	
(In thousands)	**2002**	**2001**	**2002**	**2001**
Service cost	$56,240	$46,478	$ 6,324	$ 5,031
Interest cost	71,580	64,205	10,910	10,086
Expected return on plan assets	(97,478)	(88,253)	-	-
Amortization of unrecognized transition asset	-	(3,733)	-	-
Amortization of prior service cost	3,915	3,915	1,690	1,690
Recognition of actuarial gain	(10,269)	(15,666)	-	-
Net periodic benefit cost	$23,988	$ 6,946	$18,924	$16,807

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	$3,147	$(2,447)
Effect on postretirement benefit obligation	14,213	(11,427)

American Red Cross Savings Plan – 401(k) Plan

The Organization participates in the American Red Cross Savings Plan, (the Savings Plan), a defined contribution plan. Employees of the American Red Cross, including participating chapters, are eligible to participate upon hire and are vested 100 percent in all contributions to the Savings Plan. The American Red Cross matches 50 cents for every dollar up to the first 4 percent of annual compensation contributed by the participant. For the 2002 calendar year, contribution limits were based on a maximum annual compensation of $170,000. There are eleven investment options that an employee can choose from as well as a self-managed brokerage account. The Organization contributed approximately $12 million and $8 million to the Savings Plan for fiscal years 2002 and 2001, respectively.

(12) Liberty Disaster Relief Fund – September 11 Response

The Liberty Disaster Relief Fund (the Fund) was approved by the Executive Committee of the Board of Governors of the Red Cross on October 3, 2001, and was subsequently ratified by the Board of Governors on October 27, 2001. On November 10, 2001, the Executive Committee took actions to further define the scope and purpose of the Fund. The financial statement presentation reflects the impact of those decisions retroactive to September 11, 2001.

As a result of the decisions made by the Board of Governors, the Fund is used exclusively to meet the immediate and long-term recovery needs of people directly affected by the terrorist attacks on the United States on September 11, 2001. Donor-expressed designations that are more specific than the overall Fund purpose (for example, contributions designated to those affected in New York City), are strictly honored and such contributions are used only in accordance with those designations.

The revenues and expenses of the Liberty Disaster Relief Fund for the period ending June 30, 2002, are as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Total
Revenues and gains:			
Contributions:			
Liberty disaster relief -			
Sept 11 response	$ -	$989,060	$989,060
Services and materials	-	59,669	59,669
Grants	-	7,696	7,696
Investment income	6,546	-	6,546
Net assets released from			
restrictions	636,784	(636,784)	-
Total revenues and gains	643,330	419,641	1,062,971
Expenses:			
Liberty disaster relief -			
Sept 11 response	617,960	-	617,960
Fund raising	25,370	-	25,370
Total expenses	643,330	-	643,330
Change in net assets	-	419,641	419,641
Net assets, beginning of period	-	-	-
Net assets, end of year	$ -	$419,641	$419,641

(13) 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 or its activities.

Consent Decree

In May 1993, the Organization signed a consent decree (the Decree) with the United States Food and Drug Administration affecting Biomedical Services and its Blood Services regional operations. The Organization committed to establish, implement, and/or maintain certain improvements in systems and controls in Blood Services within specified time frames to enhance and ensure compliance with applicable laws and regulations, internal standard operating procedures, and the provisions of the Decree. Based on discussions with the FDA, it is probable that the Decree will be amended to include additional compliance requirements, which would likely result in additional expenses. The level of potential additional costs is not known at this time.

On April 13, 2001, in order to help ensure ongoing regulatory compliance, the Board of Governors authorized access to $100 million of discretionary funds for Biomedical Services initiatives. These funds are only available to the extent that internally generated sources of funds and fund-raising proceeds are inadequate to cover incremental compliance activities. At June 30, 2002, none of these funds had been accessed.

(14) Risks and Uncertainties

The Organization's invested assets consist of common stocks, fixed income securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of June 30, 2002. 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.