

Grand Canyon Chapter of the American Red Cross

Financial Statements

Year ended June 30, 2005

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Independent Auditor's Report

Board of Directors
Grand Canyon Chapter of the American Red Cross
Phoenix, Arizona

We have audited the accompanying statement of financial position of Grand Canyon Chapter of the American Red Cross as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Grand Canyon Chapter of the American Red Cross' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 our audit provides 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 Grand Canyon Chapter of the American Red Cross as of June 30, 2005, and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Walker & Armstrong, LLP

Phoenix, Arizona
August 18, 2005

Grand Canyon Chapter of the American Red Cross
Statement of Financial Position
June 30, 2005

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Assets | | | | |
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 1,152,489 | \$ 333,946 | \$ - | \$ 1,486,435 |
| Receivables: | | | | |
| United Way Campaign, pledges receivable | - | 1,213,534 | - | 1,213,534 |
| Other | 136,050 | - | - | 136,050 |
| Inventory | 103,638 | - | - | 103,638 |
| Prepaid expenses | 1,550 | - | - | 1,550 |
| Investments, short-term | 922,571 | - | - | 922,571 |
| Total current assets | 2,316,298 | 1,547,480 | - | 3,863,778 |
| Due from national headquarters, long-term | 788,173 | - | - | 788,173 |
| Investments, long-term | - | - | 324,855 | 324,855 |
| Land, building and equipment, net | 1,180,988 | - | - | 1,180,988 |
| Total assets | <u>\$ 4,285,459</u> | <u>\$ 1,547,480</u> | <u>\$ 324,855</u> | <u>\$ 6,157,794</u> |
| Liabilities and Net Assets | | | | |
| <i>Liabilities</i> | | | | |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 374,588 | \$ - | \$ - | \$ 374,588 |
| Accrued expenses | 63,177 | - | - | 63,177 |
| Due to national headquarters | 257,456 | - | - | 257,456 |
| Deferred revenue | 192,548 | - | - | 192,548 |
| Total current liabilities | 887,769 | - | - | 887,769 |
| <i>Net assets</i> | | | | |
| <i>Unrestricted:</i> | | | | |
| Undesignated | 332,107 | - | - | 332,107 |
| Designated | 3,065,583 | - | - | 3,065,583 |
| Temporarily restricted net assets | - | 1,547,480 | - | 1,547,480 |
| Permanently restricted net assets | - | - | 324,855 | 324,855 |
| Total net assets | <u>3,397,690</u> | <u>1,547,480</u> | <u>324,855</u> | <u>5,270,025</u> |
| Total liabilities and net assets | <u>\$ 4,285,459</u> | <u>\$ 1,547,480</u> | <u>\$ 324,855</u> | <u>\$ 6,157,794</u> |

The accompanying notes are an integral
part of these financial statements.

Grand Canyon Chapter of the American Red Cross
Statement of Activities
Year ended June 30, 2005

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Public Support and Revenue: | | | | |
| Grants | \$ 59,179 | \$ 348,426 | \$ - | \$ 407,605 |
| Contributions: | | | | |
| United Way Campaign | - | 1,310,771 | - | 1,310,771 |
| Membership and fundraising | 1,254,814 | 232,788 | - | 1,487,602 |
| Donated services/materials | 69,023 | - | - | 69,023 |
| Special events | 101,434 | - | - | 101,434 |
| Bequests | 1,793,841 | - | 8,333 | 1,802,174 |
| Services and materials | 1,598,737 | - | - | 1,598,737 |
| National Red Cross revenue | - | 28,798 | - | 28,798 |
| Interest and dividends | 90,649 | - | 15,320 | 105,969 |
| Unrealized/realized gain | 93,092 | - | - | 93,092 |
| Other | 12,609 | - | - | 12,609 |
| Net assets released from restrictions | <u>1,870,461</u> | <u>(1,870,461)</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | 6,943,839 | 50,322 | 23,653 | 7,017,814 |
| Expenses: | | | | |
| <i>Program services:</i> | | | | |
| Disaster services | 1,634,552 | - | - | 1,634,552 |
| Health and safety services | 2,297,924 | - | - | 2,297,924 |
| Community services | 619,715 | - | - | 619,715 |
| Family emergency services | 438,344 | - | - | 438,344 |
| International services | <u>60,596</u> | <u>-</u> | <u>-</u> | <u>60,596</u> |
| Total program services | 5,051,131 | - | - | 5,051,131 |
| <i>Supporting services:</i> | | | | |
| Membership and fund-raising | 1,321,905 | - | - | 1,321,905 |
| Management and general | <u>590,980</u> | <u>-</u> | <u>-</u> | <u>590,980</u> |
| Total expenses | <u>6,964,016</u> | <u>-</u> | <u>-</u> | <u>6,964,016</u> |
| Change in net assets | (20,177) | 50,322 | 23,653 | 53,798 |
| Net assets at beginning of year, as restated | <u>3,417,867</u> | <u>1,497,158</u> | <u>301,202</u> | <u>5,216,227</u> |
| Net assets at end of year | <u>\$ 3,397,690</u> | <u>\$ 1,547,480</u> | <u>\$ 324,855</u> | <u>\$ 5,270,025</u> |

The accompanying notes are an integral
part of these financial statements.

Grand Canyon Chapter of the American Red Cross
Statement of Functional Expenses
Year ended June 30, 2005

| | Program Services | | | | | Supporting Services | | | Total Expenses |
|---|-------------------|----------------------------|--------------------|---------------------------|------------------------|-----------------------------|------------------------|--------------|----------------|
| | Disaster Services | Health and Safety Services | Community Services | Family Emergency Services | International Services | Membership and Fund-raising | Management and General | | |
| Salaries and related: | | | | | | | | | |
| Salaries and wages | \$ 340,691 | \$ 1,133,051 | \$ 197,686 | \$ 120,715 | \$ 42,137 | \$ 753,234 | \$ 311,237 | \$ 2,898,751 | |
| Employee benefits | 45,865 | 138,569 | 28,296 | 16,122 | 5,714 | 85,144 | 51,358 | 371,068 | |
| Payroll taxes | 31,743 | 107,762 | 18,446 | 10,747 | 7,248 | 58,008 | 27,580 | 261,534 | |
| Total salaries and related | 418,299 | 1,379,382 | 244,428 | 147,584 | 55,099 | 896,386 | 390,175 | 3,531,353 | |
| National assessment | 387,008 | 158,009 | - | 257,358 | - | 10,569 | 37,212 | 850,156 | |
| Financial and material assistance | 351,990 | - | 32,217 | - | - | - | - | 384,207 | |
| Printing and publication | 2,777 | 28,020 | 27,391 | 159 | 67 | 217,493 | 10,369 | 286,276 | |
| Postage and shipping | 4,361 | 29,196 | 2,646 | 210 | 18 | 9,172 | 6,711 | 52,314 | |
| Supplies | 19,272 | 362,183 | 96,264 | 15,803 | - | 11,555 | 15,458 | 520,535 | |
| Rent and utilities | 75,701 | 91,005 | 17,004 | 8,597 | 3,231 | 34,086 | 34,489 | 264,113 | |
| Telephone | 72,414 | 28,891 | 9,941 | 4,955 | 1,610 | 14,721 | 8,314 | 140,846 | |
| Travel and vehicle maintenance | 79,711 | 32,805 | 50,346 | 129 | - | 5,425 | 24,534 | 192,950 | |
| Equipment maintenance | | | | | | | | | |
| and repairs | 16,235 | 23,657 | 22,910 | 23 | - | 15,503 | 16,216 | 94,544 | |
| Conferences and meetings | 24,774 | 49,192 | 47,533 | 128 | - | 31,948 | 3,293 | 156,868 | |
| Bad debt expense | - | 575 | - | - | - | 893 | - | 1,468 | |
| Miscellaneous | 80,982 | 62,999 | 14,592 | 3,398 | 571 | 50,640 | 7,950 | 221,132 | |
| Professional fees | 285 | 2,010 | 1,081 | - | - | 2,435 | 16,346 | 22,157 | |
| Total functional expenses before other allocable expenses | 1,533,809 | 2,247,924 | 566,353 | 438,344 | 60,596 | 1,300,826 | 571,067 | 6,718,919 | |
| Donated services/materials | 44,582 | - | 3,362 | - | - | 21,079 | - | 69,023 | |
| Depreciation | 56,161 | 50,000 | 50,000 | - | - | - | 19,913 | 176,074 | |
| Total functional expenses | \$ 1,634,552 | \$ 2,297,924 | \$ 619,715 | \$ 438,344 | \$ 60,596 | \$ 1,321,905 | \$ 590,980 | \$ 6,964,016 | |

The accompanying notes are an integral part of these financial statements.

Grand Canyon Chapter of the American Red Cross
Statement of Cash Flows
Year ended June 30, 2005

Cash flows from operating activities:

| | |
|---|--------------|
| Cash received from direct public support and grants | \$ 3,931,784 |
| Cash received from indirect public support (United Way) | 1,350,353 |
| Cash received from customers and authorized providers | 1,624,726 |
| Cash received from National Headquarters | 28,798 |
| Interest received | 97,481 |
| Cash paid to employees | (3,590,421) |
| Cash paid to suppliers or as direct aid to individuals | (2,197,863) |
| Cash paid to National Headquarters | (779,067) |
| | <hr/> |
| Net cash provided by operating activities | 465,791 |

Cash flows from investing activities:

| | |
|--|----------|
| Purchase of property and equipment | (23,884) |
| Purchases of investments | (68,471) |
| Proceeds from sale of investments | 7,774 |
| | <hr/> |
| Net cash used for investing activities | (84,581) |

Net increase in cash and cash equivalents 381,210

Cash and cash equivalents, beginning of year 1,105,225

Cash and cash equivalents, end of year \$ 1,486,435

The accompanying notes are an integral
part of these financial statements.

Grand Canyon Chapter of the American Red Cross
Statement of Cash Flows (Continued)
Year ended June 30, 2005

**Reconciliation of increase in net assets
to net cash provided by operating activities:**

| | |
|--|-------------------|
| Increase in net assets | \$ 53,798 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation | 176,074 |
| Decrease in grants and bequests receivable | 184,763 |
| Decrease in receivable from United Way | 110,671 |
| Increase in trade receivables | (21,998) |
| Increase in due from National Headquarters | (129,666) |
| Increase in inventory | (35,216) |
| Decrease in prepaid expenses | 4,551 |
| Increase in accounts payable | 212,342 |
| Decrease in accrued expenses | (59,068) |
| Decrease in due to National Headquarters | (6,221) |
| Decrease in deferred revenue | (24,239) |
| | <hr/> |
| Net cash provided by operating activities | <u>\$ 465,791</u> |

The accompanying notes are an integral
part of these financial statements.

Grand Canyon Chapter of the American Red Cross
Notes to Financial Statements
Year ended June 30, 2005

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The American National Red Cross (National Headquarters), a not-for-profit corporation created by an act of Congress in 1905, recognized the Grand Canyon Chapter as its representative benefiting the Central and Northern Arizona communities. The Chapter provides relief to victims of disaster and helps people prevent, prepare for, and respond to emergencies within the State of Arizona or in areas where the need arises. The Chapter is primarily supported by charitable contributions, investment income and fees for health and safety and other courses. The Chapter, with support from and in collaboration with National Headquarters, provides services in response to disasters such as floods, single family and multi-dwelling fires, earthquakes and the like. The Chapter also provides 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.

All funds and property received by the Chapter belong to and are the property of National Headquarters to be expended only for the purposes authorized and only in accordance with regulations prescribed by National Headquarters.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions specifying how the assets are to be used, and gifts of cash or other assets that must be used solely for the purpose of acquiring long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding the time frame the long-lived assets must be maintained, the Chapter reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Chapter's activities).

Notes to Financial Statements – Continued

Note 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

Disaster Contributions

The Chapter receives funds for national and international disaster relief efforts. These funds are remitted to National Headquarters and are recorded net of allowable fundraising expenses incurred during disaster relief campaigns.

Net Assets

Unrestricted net assets include those funds presently available for use by the Chapter at the discretion of management.

The Board of Governors of the American Red Cross has approved designation of a portion of the Chapter's cash and investments for operating reserves and investment in property and equipment.

Temporarily restricted net assets are comprised of contributions subject to donor restrictions which will be satisfied either by the passage of time or by actions of the Chapter.

Permanently restricted net assets consist of funds that are subject to the donor's specifications that the principal balance be invested and only the income be used unrestricted. Income generated from permanently restricted funds is available for use at the discretion of management.

Donated Services

Amounts have been reported in the financial statements for voluntary donations of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills, which would be typically purchased if not provided by donation. Donated services consist primarily of nursing hours worked in delivery of Chapter services.

Donated Materials

Under terms of several agreements, as further discussed in Note 4, the Chapter has been provided with several vehicles from the Arizona Department of Transportation, for use in Yavapai County. The fair value of these vehicles has been recorded as revenue and depreciated based on their useful life.

Income Tax Status

The Chapter is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Notes to Financial Statements – Continued

Note 1 - Nature of Activities and Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents

For purpose of reporting cash flows, cash and cash equivalents includes cash on hand, cash held in money market accounts and certificates of deposit with original maturities of three months or less.

Land, Building and Equipment

The Chapter capitalizes expenditures for land, building and equipment in excess of \$2,500. Building and equipment are recorded at cost less accumulated depreciation. Land is recorded at cost. Donated assets are recorded at their estimated fair market value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2005 totaled \$176,074.

Investments

Investments are recorded at fair market value as determined by quoted market prices. Investment income or loss (including realized and unrealized gains and loss on investments, interest and dividends) is included in the change of net assets in the accompanying statement of activities unless the income or loss is restricted.

Inventory

Inventory consists of supplies purchased for use in program and supporting services and is stated at the lower of cost (determined on a first-in, first-out basis) or market.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Notes to Financial Statements – Continued

Note 2 – Temporarily Restricted Net Assets

Temporarily restricted net assets released from program restrictions during the year consisted of the following:

| | |
|----------------------------|---------------------|
| United Way campaign monies | \$ 1,324,205 |
| Other grants and donations | <u>546,256</u> |
| | <u>\$ 1,870,461</u> |

Temporarily restricted net assets as of June 30, 2005 are available for the following purposes:

| | |
|-------------------------|---------------------|
| Specific purpose grants | \$ 333,946 |
| United Way campaign | <u>1,213,534</u> |
| | <u>\$ 1,547,480</u> |

Note 3 – Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2005 consist of two endowment gifts totaling \$324,855.

Note 4 – Community Services – Special Transportation Project

The Chapter operates a door-to-door transportation service for the purpose of making medical, social and consumer services available to the public in Yavapai county.

Funding is provided principally from donations from various individuals, local communities and institutions. The Arizona Department of Transportation has donated several vehicles for use in Yavapai County for this function.

Notes to Financial Statements – Continued

Note 5 – Investments

At June 30, 2005, the following investments were held in the American National Red Cross Select Investment Fund:

| | | |
|------------------------------------|----|-------------------|
| Diversified bonds | \$ | 33,495 |
| Mutual funds | | 976,095 |
| International stock | | 139,080 |
| Emerging markets fund | | 19,491 |
| Long duration bond fund | | 22,740 |
| Private equity and venture capital | | 10,720 |
| Investment partnership funds | | <u>45,805</u> |
| Total investments at fair value | | 1,247,426 |
| Less current portion | | <u>(922,571)</u> |
| | \$ | <u>324,855</u> |

Investment gain for the year ended June 30, 2005 is summarized below

| | | |
|---|----|----------------|
| Interest and dividend income | \$ | 105,969 |
| Unrealized/realized gain on investments and annuities carried at fair value | | <u>93,092</u> |
| | \$ | <u>199,061</u> |

Note 6 – Accounts Receivable

Accounts receivable are reported at their outstanding principal balance and are allowed for as of June 30, 2005 based on the Chapter's evaluation of uncollectibility. Interest income is not recognized by the Chapter on its accounts receivable. Receivables outstanding for more than 90 days are considered past due. As of June 30, 2005, the allowance for doubtful accounts was \$34,241. The total amount of receivables past due by ninety days or more was \$35,573. Uncollectible receivables are reviewed on a case-by-case manner and charged to bad debts expense upon approval by management. Subsequent collection of these receivables is recorded by the Chapter as revenue.

Notes to Financial Statements – Continued

Note 7 – Land, Building and Equipment

As of June 30, 2005, land, building and equipment consisted of the following:

| | |
|-------------------------------|----------------------------|
| Building and improvements | \$ 1,748,816 |
| Equipment | 898,607 |
| Vehicles | <u>328,610</u> |
| | 2,976,033 |
| Less accumulated depreciation | <u>(1,795,045)</u> |
| Net book value | <u><u>\$ 1,180,988</u></u> |

Note 8 – Special Events

Included in special events on the statement of activities for the year ended June 30, 2005 are the following:

| | <u>Revenue</u> | <u>Expenses</u> | <u>Net</u> |
|---------------------------------|--------------------------|-------------------------|-------------------------|
| Northern Arizona Marathon | \$ 2,400 | \$ 1,994 | \$ 406 |
| Yavapai Wine and Cheese Auction | 7,800 | 1,500 | 6,300 |
| Northern Arizona Polar Express | 3,750 | - | 3,750 |
| Heroes Breakfast | 63,503 | 20,180 | 43,323 |
| Other | <u>23,981</u> | <u>614</u> | <u>23,367</u> |
| Total Special Events | <u><u>\$ 101,434</u></u> | <u><u>\$ 24,288</u></u> | <u><u>\$ 77,146</u></u> |

Note 9 – Commitments

The Chapter leases office space and office equipment under non-cancelable operating leases. Lease terms generally are for three to five years. Lease expense for the year ended June 30, 2005, was \$111,031.

As of June 30, 2005, the minimum future rental payments on these leases are as follows:

| <u>Year Ending June 30,</u> | <u>Operating</u> |
|--|--------------------------|
| 2006 | \$ 71,458 |
| 2007 | 45,734 |
| 2008 | 17,714 |
| 2009 | 504 |
| 2010 | <u>504</u> |
| Total minimum future lease payments | <u><u>\$ 135,914</u></u> |

Notes to Financial Statements – Continued

Note 9 – Commitments - Continued

The Chapter remits to National Headquarters its chapter assessment amount, as determined by National Headquarters, which in turn is used to provide services through the National Headquarters' sector budget. During fiscal year June 30, 2005, National Headquarters allocated 94% of the contribution for program services and 6% for supporting activities. The Chapter assessment commitment is an annual amount payable in 12 monthly installments. This assessment, which is inclusive of consolidated fund credits, totaled \$850,156 for the year ended June 30, 2005 of which \$198,873 was payable at June 30, 2005. The assessment payment due for the year ended June 30, 2006 is \$913,000.

Note 10 – National Contributions Disclosure

During the year ended June 30, 2005, the Chapter received \$2,475,770 in disaster relief contributions designated due to National Headquarters for the Domestic Disaster Relief Fund, International Response Fund, and other National Disasters in addition to the \$713 due to National Headquarters from the prior year. The following shows amounts received and balances due to National Headquarters as of June 30, 2005.

| | Tsunami/ Earthquake | Domestic Disasters | International |
|---------------------------|------------------------|-----------------------|---------------|
| Balance due July 1, 2004 | \$ - | \$ 713 | \$ - |
| Contributions received | 1,501,816 | 184,400 | 789,554 |
| Remittances to NHQ | (1,501,816) | (181,954) | (789,554) |
| Balance due June 30, 2005 | \$ - | \$ 3,159 | \$ - |

Note 11 – Benefit Plans

The Chapter participates in the defined benefit retirement plan administered by the American Red Cross Retirement System that covers substantially all employees. Chapter participation in the Retirement System 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 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 service and/or 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.

In July 2000, the Chapter chose to participate in the American Red Cross Savings Plan. Under the plan, an employee (immediately upon hire) can contribute up to the combined pre- and after-tax maximum. The Red Cross matches 50 cents for every dollar up to the first 4% of pay contributed. The employee is immediately 100% vested, including the Red Cross match.

Notes to Financial Statements – Continued

Note 11 – Benefit Plans - Continued

The American Red Cross is a single corporate legal entity composed of approximately 950 operating units, which include local chapters, Blood Services Regions, Tissue Services Areas, stations on military bases and in military hospitals worldwide, a national headquarters, regional and area offices, and our national biomedical testing and research laboratories. Accordingly, the retirement system includes numerous participating chapters and blood regions. 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 American Red Cross are presented in the organization's consolidated financial statements.

The total amount remitted by the Chapter for the year ended June 30, 2005 for the Retirement System and the Savings Plan totaled \$106,484.

Note 12 – Postretirement Benefits

The American Red Cross provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and employer units pay a portion of the premium costs and the medical and dental plans pay a stated percentage of expenses reduced by deductibles and other coverage. The American Red Cross 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. Life insurance benefits are generally provided by insurance contracts.

Postretirement benefits are accrued over the period the employee provides service to the organization. Since Red Cross 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 regions is not practicable. Annual postretirement benefits expenses are recorded and disclosed for the entire American Red Cross in its consolidated financial statements.

Note 13 – Concentrations of Credit Risk

Financial instruments that subject the Chapter to potential concentrations of credit risk consist principally of cash and cash equivalents, investments and receivables. The Chapter maintains its cash in bank and money market accounts, which at times may exceed federally insured limits. At June 30, 2005, the Chapter's bank balances had exceeded federally insured limits. The Chapter has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. Concentrations of credit risk with respect to receivables are limited due to the fact that they are due from the United Way, National Headquarters, government agencies and confirmed bequests.

Notes to Financial Statements – Continued

Note 14 – Related Parties

Included in Due from National Headquarters in the statement of financial position are annuities that the American National Red Cross holds on behalf of the Chapter, as well as receivables for grants and advances for disasters.

As stated in Note 9, the Chapter is required to make payments to the American National Red Cross.

Note 15 – Prior Period Adjustments

Net assets at the beginning of the year have been adjusted to correct an error made for (1) an overstatement of net assets for revenue from Phelps Dodge related to the youth camp that should have been reported as deferred revenue and (2) an understatement of permanently restricted net assets and related overstatement of unrestricted net assets on the unrealized gain on investments. Had the errors not been made, changes in temporarily restricted net assets for the year ended June 30, 2004 would have decreased \$209,000 and permanently restricted net assets would have increased by \$44,818 with an offsetting decrease in unrestricted net assets, summarized as follows:

| | <u>Unrestricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Permanently Restricted Net Assets</u> |
|--|------------------------------------|--|--|
| Net assets at June 30, 2004, as previously reported | \$ 3,462,685 | \$ 1,706,158 | \$ 256,384 |
| Overstatement of Phelps Dodge grant revenue for the youth camp | - | (209,000) | - |
| Correction of investments | (44,818) | - | 44,818 |
| Net assets at July 1, 2004, as restated | <u>\$ 3,417,867</u> | <u>\$ 1,497,158</u> | <u>\$ 301,202</u> |