



THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Auditors' Report

The Board of Governors
The American National Red Cross:

We have audited the accompanying consolidated financial statements of The American National Red Cross (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The American National Red Cross as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(r) to the consolidated financial statements, in 2020 The American National Red Cross adopted new accounting guidance, Accounting Standards Update (ASU) No. 2018-08 – Not for Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU No. 2016-02, *Leases (Topic 842)*, ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The American National Red Cross' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

McLean, Virginia
October 21, 2020

THE AMERICAN NATIONAL RED CROSS
Consolidated Statement of Financial Position
June 30, 2020
(With comparative information as of June 30, 2019)
(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 235,415	101,101
Investments (note 4)	348,443	460,187
Trade receivables, including grants, net of allowance for doubtful accounts of \$1,700 in 2020 and \$2,364 in 2019 (note 11)	286,464	196,172
Contributions receivable (note 2)	34,368	31,948
Inventories, net of allowance for obsolescence of \$180 in 2020 and \$178 in 2019	46,998	38,800
Other current assets	50,989	49,516
Total current assets	<u>1,002,677</u>	<u>877,724</u>
Noncurrent assets:		
Investments (note 4)	1,087,477	1,067,866
Contributions receivable (note 2)	14,191	14,689
Right-of-use assets-operating leases (note 6)	114,474	—
Land, buildings, and other property, net (note 3)	755,519	798,466
Assets held for sale, net (note 3)	30,960	35,740
Other assets (note 9)	261,601	255,419
Total noncurrent assets	<u>2,264,222</u>	<u>2,172,180</u>
Total assets	<u>\$ 3,266,899</u>	<u>3,049,904</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 253,123	272,134
Current portion of debt (note 5)	41,265	43,888
Current portion of lease obligation-operating (note 6)	22,689	—
Postretirement benefits (note 10)	3,779	3,824
Other current liabilities (notes 9 and 11)	145,970	133,210
Total current liabilities	<u>466,826</u>	<u>453,056</u>
Noncurrent liabilities:		
Debt (note 5)	596,132	537,413
Long-term lease obligation-operating (note 6)	104,096	—
Pension and postretirement benefits (note 10)	155,924	495,161
Other liabilities (notes 5 and 9)	131,706	122,110
Total noncurrent liabilities	<u>987,858</u>	<u>1,154,684</u>
Total liabilities	<u>1,454,684</u>	<u>1,607,740</u>
Net assets (notes 7 and 8):		
Without donor restrictions net assets (deficit)	390,796	(5,469)
With donor restrictions net assets	1,421,419	1,447,633
Total net assets	<u>1,812,215</u>	<u>1,442,164</u>
Commitments and contingencies (notes 4, 5, 6, 10, 11)		
Total liabilities and net assets	<u>\$ 3,266,899</u>	<u>3,049,904</u>

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2020

(With summarized information for the year ended June 30, 2019)

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
Operating revenues and gains:				
Contributions:				
Corporate, foundation and individual giving	\$ 200,155	364,733	564,888	599,526
United Way and other federated	10	33,511	33,521	41,540
Contracts, including federal government	6,402	121,735	128,137	51,592
Legacies and bequests	80,384	45,318	125,702	98,199
Services and materials	24,339	59,719	84,058	70,043
Products and services:				
Biomedical Services	1,731,504	—	1,731,504	1,741,302
Program materials	108,514	—	108,514	142,379
Investment return, net (note 4)	6,083	38,468	44,551	53,235
Other revenues	86,488	23	86,511	70,975
Net assets released from restrictions	<u>693,377</u>	<u>(693,377)</u>	<u>—</u>	<u>—</u>
Total operating revenues and gains	<u>2,937,256</u>	<u>(29,870)</u>	<u>2,907,386</u>	<u>2,868,791</u>
Operating expenses:				
Program services:				
Services to the Armed Forces	65,317	—	65,317	73,838
Biomedical Services	1,766,661	—	1,766,661	1,740,715
Community Services	24,888	—	24,888	24,672
Domestic Disaster Services	427,587	—	427,587	667,355
Training Services	122,854	—	122,854	144,066
International Relief and Development Services	<u>82,053</u>	<u>—</u>	<u>82,053</u>	<u>61,304</u>
Total program services	<u>2,489,360</u>	<u>—</u>	<u>2,489,360</u>	<u>2,711,950</u>
Supporting services:				
Fundraising	172,690	—	172,690	177,041
Management and general	<u>89,535</u>	<u>—</u>	<u>89,535</u>	<u>103,527</u>
Total supporting services	<u>262,225</u>	<u>—</u>	<u>262,225</u>	<u>280,568</u>
Total operating expenses	<u>2,751,585</u>	<u>—</u>	<u>2,751,585</u>	<u>2,992,518</u>
Change in net assets from operations	185,671	(29,870)	155,801	(123,727)
Nonoperating investment return, net (note 4)	(1,240)	3,656	2,416	20,725
Pension-related changes other than net periodic benefit cost (note 10)	<u>211,834</u>	<u>—</u>	<u>211,834</u>	<u>(36,986)</u>
Change in net assets	396,265	(26,214)	370,051	(139,988)
Net assets, beginning of year	<u>(5,469)</u>	<u>1,447,633</u>	<u>1,442,164</u>	<u>1,582,152</u>
Net assets, end of year	\$ <u>390,796</u>	<u>1,421,419</u>	<u>1,812,215</u>	<u>1,442,164</u>

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS
Consolidated Statement of Functional Expenses
Year ended June 30, 2020
(With summarized information for the year ended June 30, 2019)
(In thousands)

	Program services						Total program services
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Training Services	International Relief and Development Services	
Salaries and wages	\$ 30,847	750,430	11,492	119,066	49,411	11,689	972,935
Employee benefits	7,088	172,432	2,641	27,359	11,354	2,684	223,558
Subtotal	37,935	922,862	14,133	146,425	60,765	14,373	1,196,493
Travel and maintenance	1,941	24,472	180	14,554	4,430	2,056	47,633
Equipment maintenance and rental	645	44,763	765	8,338	857	499	55,867
Supplies and materials	1,406	227,883	889	3,766	9,682	344	243,970
Contractual services	7,476	485,096	4,229	52,793	42,455	2,287	594,336
Financial and material assistance	14,189	2,352	3,531	190,164	300	62,342	272,878
Depreciation and amortization	1,725	59,233	1,161	11,547	4,365	152	78,183
Total expenses	<u>\$ 65,317</u>	<u>1,766,661</u>	<u>24,888</u>	<u>427,587</u>	<u>122,854</u>	<u>82,053</u>	<u>2,489,360</u>
	Supporting services			Total expenses			
	Fundraising	Management and general	Total supporting services	2020	2019		
Salaries and wages	\$ 87,518	45,047	132,565	1,105,500	1,101,520		
Employee benefits	20,110	10,350	30,460	254,018	260,203		
Subtotal	107,628	55,397	163,025	1,359,518	1,361,723		
Travel and maintenance	3,653	1,394	5,047	52,680	84,147		
Equipment maintenance and rental	2,348	3,727	6,075	61,942	66,388		
Supplies and materials	1,823	446	2,269	246,239	247,236		
Contractual services	51,007	27,052	78,059	672,395	703,886		
Financial and material assistance	287	406	693	273,571	456,768		
Depreciation and amortization	5,944	1,113	7,057	85,240	72,370		
Total expenses	<u>\$ 172,690</u>	<u>89,535</u>	<u>262,225</u>	<u>2,751,585</u>	<u>2,992,518</u>		

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2020

(With comparative information for the year ended June 30, 2019)

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 370,051	(139,988)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	85,240	72,370
Amortization of right-of-use assets-operating leases	32,760	—
Provision for doubtful accounts receivable	(1,725)	2,095
Provision for obsolete inventories	2	37
Net gains on sales of property	(10,831)	(12,655)
Net investment returns and derivatives gains	(8,260)	(39,275)
Pension and postretirement-related changes other than net periodic benefit costs	(211,834)	36,986
Donor-restricted contributions	(24,588)	(19,975)
Changes in operating assets and liabilities:		
Receivables	(90,489)	9,047
Inventories	(8,200)	(11)
Other assets	(7,655)	5,022
Accounts payable and accrued expenses	(11,697)	(14,520)
Decrease in operating lease liability obligations	(32,781)	—
Other liabilities	28,556	(6,239)
Pension and postretirement benefits	<u>(127,449)</u>	<u>(34,615)</u>
Net cash used in operating activities	<u>(18,900)</u>	<u>(141,721)</u>
Cash flows from investing activities:		
Purchases of property	(49,599)	(70,745)
Proceeds from sales of property	5,272	11,700
Proceeds from properties held for sale	17,685	18,876
Purchases of investments	(35,283)	(609,128)
Proceeds from sales of investments	<u>134,495</u>	<u>786,293</u>
Net cash provided by investing activities	<u>72,570</u>	<u>136,996</u>
Cash flows from financing activities:		
Donor-restricted contributions	24,588	19,975
Proceeds from borrowings	100,000	—
Repayment of debt	<u>(43,944)</u>	<u>(43,637)</u>
Net cash provided by (used in) in financing activities	<u>80,644</u>	<u>(23,662)</u>
Net increase (decrease) in cash and cash equivalents	134,314	(28,387)
Cash and cash equivalents, beginning of year	<u>101,101</u>	<u>129,488</u>
Cash and cash equivalents, end of year	\$ <u>235,415</u>	\$ <u>101,101</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 29,093	30,365

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Presentation

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

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. There have been mandates from international, federal, state and local authorities requiring temporary closure of various schools, businesses and other facilities and organizations. While the closures and limitations on movement, domestically and internationally, are expected to be temporary, the continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may adversely affect the Organization's operations, investments and overall financial condition.

The Organization has implemented extensive measures to protect the health and safety of its employees with the majority of the workforce switching to full time remote working and adapting day to day operations and processes to safely carryout its mission. The American National Red Cross continues to monitor developments and work with its clients and communities to address the impact of COVID-19, assess the implications to its business, and take necessary actions to mitigate potential adverse consequences.

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

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

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

Without Donor Restrictions – Net assets that are not subject to any donor-imposed stipulations.

With Donor Restrictions – 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 or other legal restrictions

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

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.

(b) Measure of Operations

The Organization's measure of operations as presented in the consolidated statement of activities includes operating revenue from contributions, product and services, contracts, investment returns made available for current use, and other revenues. The measure of operations includes support for operating activities from both donor-restricted and without donor restrictions sources. Nonoperating activities primarily include pension-related gains other than net periodic benefit cost, and changes in the fair value of investments.

(c) Summarized Comparative Information

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 U.S. 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, 2019 from which the summarized information was derived.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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.

(e) Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and overnight investments of approximately \$220 million and \$91 million as of June 30, 2020 and 2019, respectively. Cash and cash equivalents that are held as part of the investment portfolio purchased with donor-restricted contributions are reported within investments.

(f) Investments

Investments are reported at fair value except for certain alternative investment funds that, as a practical expedient, are reported at estimated fair value utilizing net asset values (NAVs). Net asset value, in some instances may not equal the fair value. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2020. The Organization reviews and evaluates the net asset values provided by the general partners and fund managers and agrees with the valuation methods and assumptions used in determining net asset values of these funds.

Investment income classified as operating revenue consists of interest and dividend income on investments and spending approved for use in operations (note 4). All other realized and unrealized

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

gains or losses are classified as nonoperating activities and are available to support operations in future years and to offset potential market declines.

Investments classified as current investments made by the Organization are expected to be converted into cash within one year.

Investment management fees are netted against investment returns.

(g) Derivative Financial Instruments

The Organization makes use of derivative financial instruments in order to take exposure or mitigate certain risks. Derivative financial instruments are recorded at fair value (notes 5 and 10). Derivatives in an asset and liability position are offset against each other and reported net in investments in the statement of financial position.

(h) Endowment Fund

The Organization has maintained a national endowment fund since 1905. From 1910 until June 30, 2015, any gift to the American Red Cross National Headquarters from a will, trust, or similar instrument that did not direct the use of the funds was deposited into the endowment fund, recorded as net assets with donor restrictions to be kept and invested in perpetuity and, accordingly, reported as net assets with donor restrictions. In fiscal year 2015, the Organization adopted a new policy that gifts to the American Red Cross National Headquarters from a will, trust, or similar instrument dated on or after July 1, 2015 without a direction to the application or purpose of the funds shall be allocated at the discretion of senior management to where the need is greatest. Such amounts will be reported as increases to net assets without donor restrictions. All gifts to the American Red Cross National Headquarters that are designated to be invested in perpetuity shall continue to be deposited into the endowment fund regardless of the date of the gift instrument.

(i) Inventories

Inventories of supplies purchased for use in program and supporting services are valued using the average cost method. Whole blood and its components are valued at the lower of average cost or net realizable value.

(j) Land, Buildings, and Other Property

Purchases of land, buildings, and other property having a unit cost per established guidelines and a useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Interest expense incurred during a period of construction, less related interest income earned on proceeds of tax-exempt borrowings is capitalized.

Property under finance leases is amortized over the lease term. Any gain or loss on the sale of land, buildings and other property is reported as other revenues on the consolidated statement of activities.

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

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

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

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

(k) Long-Lived Assets

Long-lived assets, such as land, building, and other property, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(l) Leases

As of July 1, 2019, the Organization adopted Accounting Standards Update (“ASU”) 2016-02, *Leases*, which was amended in some respects by subsequent ASUs (collectively Accounting Standards Codification 842 (“ASC 842”)) and supersedes existing lease guidance. The standard requires the Organization to record operating lease assets and corresponding lease liabilities on the balance sheet and disclose key quantitative and qualitative information about lease contracts.

Under ASC 842, the Organization determines if a contract is a leasing arrangement at inception. Operating lease assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. For the majority of the leases, the Organization used the risk-free rate of return. The Organization recognized operating lease expense for operating leases on a straight-line basis over the lease term.

The Organization leases office space and equipment under non-cancelable operating leases which may include renewal or termination options that are reasonably certain of exercise. Most leases include one or more options to renew, with renewal terms that can extend the lease term up to seven years. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are expensed on a straight-line basis. Lease and non-lease components are accounted for together as a single lease component for operating leases associated with office space and equipment leases.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(m) Property and Casualty Insurance

The Organization maintains various insurance policies under which it assumes a portion of each insured loss. Assumed losses are retained by the Organization through its wholly owned insurance subsidiary, Boardman Indemnity, Ltd. (Boardman). The Organization also purchases insurance to supplement the coverage by Boardman. The liabilities for outstanding losses and incurred but not reported claims have been determined based on actuarial studies and are reported as other liabilities in the consolidated statement of financial position and were approximately \$76 million in both fiscal years 2020 and 2019.

(n) Revenue Recognition

(i) Contribution Revenue

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Contributions receivable due beyond one year are stated at net present value of the estimated cash flows using a risk-adjusted rate. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be without donor restrictions unless specifically restricted by the donor for time or purpose.

The Organization reports contributions in the donor restricted net asset class if they are received with donor stipulations as to their use and/or time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are released and reclassified to net assets without donor restriction in the consolidated statement of activities.

Donor-restricted contributions are initially reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period, except for conditional grants discussed in note (1)(n)(v).

(ii) Revenue from Contracts with Customers

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services. Revenue from contracts with customers is disaggregated between Biomedical and Program Materials on the consolidated statement of activities.

(iii) Biomedical Revenues

Biomedical provides goods (blood products for hospitals) and services (blood testing) under single contracts with customers with multiple performance obligations. Blood products sold fall under two main categories – Whole Blood Products, which include red cells, plasma, and platelets; and Apheresis Platelet Products, which are the result of donated specific blood components. Testing services are performed over all products prior to the sale and delivery of the products. Because the blood products and blood testing services are not capable of being distinct, the products and services are treated as a bundled performance obligation.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

For products, the performance obligation is satisfied when the customer gains control over the promised asset, which is generally at the time of shipment based on the contractual terms with the customers. Blood products have a limited shelf-life, therefore, any associated refunds or discounts, which historically have not been material, are generally recognized in the same accounting period in which the initial revenue is recognized.

For services, the service has been substantially performed and the obligation met at the point in time at which the service is completed. Services are invoiced once the regulated testing process is complete and documentation is sent to the customer.

Performance obligations for blood products and blood testing services are generally satisfied within 30 days, and therefore, there is no substantial difference in revenue recognition based on bundled performance obligations.

The expected length of time between when Organization transfers the promised goods or services to the customer and when the customer pays for those goods or services is 30 days. Generally, there is no difference between the amount of consideration promised and the cash selling price of the blood products and services.

(iv) *Program Materials Revenue*

The organization provides various health and safety preparedness classes and certifications including CPR, first aid, AED skills, swimming and water safety, lifeguarding, caregiving skills, and certified nurse assistant (CNA) training and testing. Revenue generated by these training services is included in Program Materials on the consolidated statement of activities.

Program Materials, which consist primarily of training services, performance obligations are satisfied at the point in time at which the training is complete and certification is provided. Revenue is recognized upon completion of distinct performance obligations in the same accounting period in which each specific performance obligation is met. The transaction price is determined for each contract using the standalone selling price and applied to each performance obligation as completed.

(v) *Other Revenue*

Revenue from grants and contracts, including federal grants, that are considered to be conditional contributions are recorded in the statement of activities under Contracts, including federal government within the contribution section and are recognized as qualifying expenses are incurred under the agreement. The Organization adopted the simultaneous release option for donor-restricted conditional grants that are recognized and used within the same reporting period, therefore, these amounts are reported as without donor restriction.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(o) Contributed Services and Materials

Contributed services reflect the important impact volunteers have in delivering the Organization's mission. Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services, which would be typically purchased if not provided by donation.

The Organization engages more than 300,000 volunteers. A small percentage of these volunteers meet the above criteria and are reported in contributed services. Contributed services for the year ended June 30, 2020 include the services of approximately 10,652 volunteers. The Organization recorded contributed services revenue and related expense of approximately \$34 million. The \$34 million and \$51 million recorded in 2020 and 2019, respectively, represent primarily volunteer efforts in support of disaster services and services to the Armed Forces.

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

(p) Income Taxes

The American National Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. At June 30, 2020 and 2019, the Organization has determined that no income taxes are due for such activities. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements.

(q) Accounts Receivable Securitization

The Organization has an accounts receivable securitization program that is accounted under Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing* (note 11).

(r) Newly Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-08 – *Not-for Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions. This ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU No. 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. Under the new guidance, if a transaction is considered an exchange transaction, it is accounted for under the applicable revenue recognition standards. In fiscal year 2019, the Organization adopted this standard prospectively for contributions received for the fiscal year ended June 30, 2019. The portion of ASU 2018-08 related to contributions made was implemented for the fiscal year ended June 30, 2020 and resulted in no changes to the way the related expenses are recorded.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* that requires a lessee to recognize on the consolidated statement of financial position a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term, regardless of classification of a lease as an operating or finance lease. The Organization adopted ASU 2016-02 on July 1, 2019, using the modified retrospective approach for operating leases, with a term greater than 12 months. The Organization also elected the package of practical expedients permitted under the new standard that allowed the Organization to carry forward historical lease classification for existing leases on the adoption date, and allowed the Organization not to assess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method.

The adoption of this standard resulted in recognition of operating lease assets in the amount of \$129 million and lease liabilities in the amount of \$140 million for operating leases on the Consolidated Statement of Financial Position as of July 1, 2019. Existing deferred rent the \$7 million as of June 30, 2019 and is included as a reduction to the initial measurement of operating lease assets. There was no material impact on the Consolidated Statements of Activities, Consolidated Statements of Functional Expenses or Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization has adopted ASU 2016-18 retrospectively for all periods presented. There was no material impact to the consolidated financial statements and underlying accounting as a result of this adoption.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The Organization has adopted ASU 2016-15 and has concluded that there are no changes to the statement of cash flows.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2020 and 2019 (in thousands):

	2020	2019
Amounts receivable within one year	\$ 36,516	35,158
Amounts receivable in 1 to 5 years (net of discount of \$1,355 and \$1,432 for 2020 and 2019, respectively)	14,191	14,689
Total contributions receivable before allowance for uncollectible amounts	50,707	49,847
Less allowance for uncollectible amounts	(2,148)	(3,210)
Contributions receivable, net	48,559	46,637
Less current portion	34,368	31,948
Contributions receivable, net, noncurrent	\$ 14,191	14,689

Amounts presented above have been discounted to present value using various discount rates ranging between 0.14% and 3.15%.

As of June 30, 2020, the Organization received conditional grants totaling \$120 million. These grants are conditional based on incurring qualifying expenses and will be recognized as revenue in the periods in which the conditions are fulfilled.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2020 and 2019 (in thousands):

	2020	2019
Land	\$ 88,593	88,730
Buildings and improvements	1,053,572	1,034,271
Equipment and software	550,241	557,066
Total cost of assets placed in service	1,692,406	1,680,067
Less accumulated depreciation and amortization	(946,095)	(903,686)
Construction in progress	9,208	22,085
Land, buildings, and other property, net	\$ 755,519	798,466

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

Assets held for sale were as follows at June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Land	\$ 11,819	13,081
Buildings and improvements	<u>32,287</u>	<u>39,596</u>
Total cost of assets held for sale	44,106	52,677
Less accumulated depreciation and amortization	<u>(13,146)</u>	<u>(16,937)</u>
Assets held for sale, net	<u>\$ 30,960</u>	<u>35,740</u>

These assets have been segregated from land, buildings, and other property and presented as assets held for sale within the accompanying consolidated financial statements. The Organization identified these assets as not critical to supporting its primary mission as part of ongoing assessment procedures. The Organization then evaluated the identified assets using the criteria for classification as held for sale included in ASC 360-10, *Impairment and Disposal of Long-Lived Assets*. Certain assets or portions of assets identified were determined to meet the criteria and have been classified as such. The carrying value of these assets has been compared to the current appraised values less cost to sell and determined not to be impaired. During fiscal year ended June 30, 2020, the gain on the buildings and improvements assets held for sale was approximately \$9 million, which is included in other revenue on the consolidated statement of activities.

(4) Investments and Fair Value Measurements

The Organization applies the provisions of ASC No. 820, *Fair Value Measurements*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC No. 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market – corroborated inputs
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

In certain cases, the inputs to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinate input that is significant to the fair value measurement.

For the years ended June 30, 2020 and 2019, there were no transfers between levels.

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

As of January 1, 2018, the Organization acquired 40% interest in Creative Testing Solutions. As of February 13, 2020, the Organization acquired 50% interest in ARC-One Solutions, LLC. These investments are accounted for using the equity method and are reflected in long-term investments on the Organization's consolidated statement of financial position. The balance at June 30, 2020 reflects the original contribution as well as the Organization's share of the earnings of the investee. Earnings were approximately \$10 million for the period ended June 30, 2020 and are reflected in other revenue on the consolidated statement of activities.

The following table represents investments that are measured at fair value on a recurring basis and other investments at June 30, 2020 (in thousands):

	June 30, 2020	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed-income commingled funds	\$ 24,331	—	24,331	—	—
U.S. government and sovereign securities	93,526	—	93,526	—	—
Equity commingled funds	101,875	7,568	35,012	—	59,295
Exchange-traded funds	74,327	74,327	—	—	—
Hedge funds	409,312	—	—	—	409,312
Private equity and debt	157,630	—	—	—	157,630
Real estate and real assets	796	—	—	—	796
Cash equivalents	525,645	77,956	447,689	—	—
Investments stated at fair value	1,387,442	\$ 159,851	600,558	—	627,033
Equity method investments	48,478				
Total investments	\$ 1,435,920				

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2019 (in thousands):

	<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Measured at NAV(1)</u>
Fixed-income commingled funds	\$ 55,562	—	55,562	—	—
U.S. government and sovereign securities	118,234	—	118,234	—	—
Common and preferred stock	569	569	—	—	—
Equity commingled funds	184,453	31,037	100,989	—	52,427
Exchange-traded funds	73,586	73,586	—	—	—
Hedge funds	391,667	—	—	—	391,667
Private equity and debt	128,699	—	—	—	128,699
Real estate and real assets	202	—	—	—	202
Cash equivalents	<u>520,806</u>	<u>37,751</u>	<u>483,055</u>	<u>—</u>	<u>—</u>
Investments stated at fair value	1,473,778	\$ <u>142,943</u>	<u>757,840</u>	<u>—</u>	<u>572,995</u>
Equity method investments	<u>54,275</u>				
Total investments	\$ <u>1,528,053</u>				

(1) Certain investments are measured at fair value using NAV as a practical expedient and have not been classified in the fair value hierarchy. The NAV amounts have been presented to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The Organization used quoted prices in principal active markets for identical assets as of the valuation date (Level 1) to value certain cash equivalents at June 30, 2020 and 2019.

For the valuation of certain cash equivalents, U.S. government and sovereign securities, and fixed income and equity commingled funds at June 30, 2020 and 2019, the Organization used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2). The Level 2 commingled funds have a readily determinable fair value.

For the most part, the valuation of hedge funds, private equity and debt funds, private real estate and private real assets funds, at June 30, 2020 and 2019, are reported at estimated fair value utilizing the net asset values provided by fund managers as a practical expedient. In a few instances, additional supplemental information provided by the fund manager has been utilized to evaluate fund values and level the investments. Reported fund values utilize significant unobservable inputs; the Organization reviews and evaluates the values provided by fund managers and general partners and agrees with the valuation methods and assumptions used in determining the reported fair values of the alternative investments.

The Organization had no Level 3 reportable transactions for the year ended June 30, 2020.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of June 30, 2020 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Equity commingled funds (a)	\$ 59,295	—	monthly to quarterly	30 days
Hedge funds (b),(d)	860	—	N/A	fully redeemed
Hedge funds (b)	408,452	—	monthly to triennially	5-90 days
Private equity and debt (c)	157,630	120,911	None	—
Real estate and real assets (c)	<u>796</u>	<u>6,351</u>	None	—
Total	\$ <u>627,033</u>	<u>127,262</u>		

- (a) Equity Commingled Fund Investments. Equity mandates are global or sector focused (i.e., real estate MLPs). Underlying equity exposures are global equities and cash for liquidity purposes. Positions are generally long and leverage can be used if managers are allowed to hedge foreign current exposures.
- (b) Hedge Fund Investments. Hedge fund strategies include: equity long/short, relative value, event driven, arbitrage, macro, and opportunistic strategies. Underlying hedge fund holdings can consist of the full spectrum of global equity, fixed income, commodity, and currency instruments. Positions may be long and short; leverage may also be used. Some funds may invest in side pockets, which are a separate share class and are not available for redemption until the investment is liquidated by the manager.
- (c) Non-Marketable Investment Strategies. Private equity and debt strategies include: leveraged buyout, growth equity, venture capital, and distressed debt. Real estate and real assets strategies include natural resources, such as oil and gas or minerals and mining. Nonmarketable funds do not permit redemptions; capital is returned to investors at the discretion of the investment manager and in accordance with limited partnership terms. Interim distributions of interest and dividends can be made; however, capital and realized gains are generally distributed when underlying investments are liquidated. Funds are able to recall distributions. It is expected that the majority of the nonmarketable investments will be liquidated over the next 10 years.
- (d) Represents expected redemptions related to audit holdbacks, where funds retain a portion of requested redemptions until the fund's annual audit is complete in order to accommodate potential final NAV adjustments.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the estimated fair value of investments reported in the consolidated statement of financial position as of June 30, 2020. However, the diversification of the Organization's invested assets among these various asset classes and the risk reduction purpose in the

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

case of hedging assets is management's strategy to mitigate the impact of any dramatic change on any one asset class.

The following schedule summarizes the composition of investment return for the years ended June 30, 2020 and 2019 (in thousands):

	2020			2019
	Without donor restrictions	With donor restrictions	Total	Total
Investment returns available for operations:				
Other investment returns	\$ 6,083	38,468	44,551	53,235
	6,083	38,468	44,551	53,235
Net nonoperating investment returns	(1,240)	3,656	2,416	20,725
Total return on investments, net	\$ 4,843	42,124	46,967	73,960

(5) Debt

Debt consists of the following at June 30, 2020 and 2019 (in thousands):

	2020	2019
Fixed rate debt:		
Bearing interest rates ranging from 0% to 5.85%, due calendar year 2020 through 2044	\$ 590,007	440,176
Variable rate debt:		
Bearing interest rates ranging from 0.33% to 5.95%, due calendar year 2019 through 2034:		
Variable rate debt with demand repayment rights	47,390	51,125
Variable rate debt without demand repayment rights	—	90,000
Total bonds and notes payable	637,397	581,301
Less current portion	41,265	43,888
Debt, noncurrent portion	\$ 596,132	537,413

The Organization's debt is generally backed only by the full faith and credit of the Organization. Certain bonds are subject to redemption prior to the maturity at the option of the Organization. The repayment terms of the variable rate debt generally require monthly payments of interest and annual principal reduction. The registered owners of the bonds and notes with demand repayment rights may demand

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

repurchase of the bonds and notes for an amount equal to the principal plus accrued interest. Letters of credit or standby credit facilities have been established in the aggregate amount of \$8 million and \$9 million for both fiscal years 2020 and 2019, respectively, to provide liquidity in the event other funding is not available for repurchasing. As of June 30, 2020, the maturity dates for these liquidity facilities are in calendar year 2021. Approximately \$8 million of the debt with demand repayment rights bears interest at flexible rates with flexible rate periods of any duration up to 270 days. The remaining debt with demand repayment rights is bearing interest rates that are reset weekly.

Certain of the Organization's debt agreements include covenants that require the Organization to maintain certain levels of financial ratios. The Organization was in compliance with its covenant requirements as of and for the year ended June 30, 2020.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2020 are as follows (in thousands):

2021	\$	36,735
2022		41,835
2023		36,935
2024		37,035
2025		81,035
Thereafter		<u>395,915</u>
	\$	<u><u>629,490</u></u>

Interest expense was approximately \$28 million and \$30 million for fiscal years ended June 30, 2020 and 2019, respectively, which is included in contractual services on the statement of functional expenses.

(a) Bank Lines of Credit

The Organization maintained several committed and uncommitted lines of credit with various banks for its working capital requirements. There were no borrowings outstanding under lines of credit as of June 30, 2020 and 2019. The Organization had unused lines of credit outstanding of approximately \$200 million and \$275 million at both June 30, 2020 and June 30, 2019. The amounts available to be borrowed on the lines of credit are subject to the limitations of the Organization's debt covenants.

(b) Interest Rate Swap Agreements

The Organization held variable rate debt of approximately \$47 million and \$141 million at June 30, 2020 and 2019, respectively. Interest rate swap agreements are used by the Organization to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, a portion of variable rate indebtedness is converted to fixed rates based on a notional principal amount. The interest rate swap agreements are derivative instruments that are recognized at fair value and recorded on the statement of financial position. At June 30, 2020, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2020 through 2026, totaled \$39 million. At June 30, 2019, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2019 through

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

2026, totaled \$42 million. The estimated fair value of the interest rate swap agreements was a liability of approximately \$4.0 million and \$2.8 million, respectively, and is included in other liabilities in the accompanying consolidated statement of financial position as of June 30, 2020 and 2019.

The change in fair value on these interest rate swap agreements was a loss of approximately \$1.2 million and a loss of approximately \$1.6 million for the years ended June 30, 2020 and 2019, respectively, and is included in nonoperating gains in the consolidated statements of activities.

For the valuation of the interest rate swaps at June 30, 2020 and 2019, the Organization used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Organization. See note 4 for definitions of Levels 1, 2, and 3.

(c) Letters of Credit

The Organization had unused letters of credit outstanding of approximately \$55 million at June 30, 2020 and \$53 million at June 30, 2019.

(6) Leases

The Organization has operating and finance leases for real estate, personal property and equipment. The Organization determines if an arrangement is a lease at the inception of a contract, and recognizes operating lease expense on a straight-line basis over the lease term. Leases with an initial term of twelve months or less are not recorded on the consolidated statement of financial position and are expensed on a straight-line basis.

The Organization has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component, with any variable elements being recorded as variable lease expense.

Operating lease right-of-use assets and lease liabilities as of June 30, 2020 were as follows (in thousands):

<u>Operating leases</u>	
Right-of-use assets:	
Operating lease assets	\$ 114,474
Lease liabilities:	
Current operating lease liabilities	\$ 22,689
Noncurrent operating lease liabilities	104,096
Total operating lease liabilities	<u>\$ 126,785</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

Operating expenses for the leasing activity of the Organization as lessee for the year ended June 30, 2020 are as follows (in thousands):

<u>Lease type</u>		
Operating lease costs	\$	32,760
Short-term lease costs		<u>7</u>
Total lease cost	\$	<u><u>32,767</u></u>

Total rent expense was approximately \$46 million and \$48 million for the years ended June 30, 2020 and 2019, respectively, and is included in contractual services on the consolidated statement of functional expenses.

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of June 30, 2020, and a reconciliation to operating lease liabilities reported on the consolidated statement of financial position:

2021	\$	23,975
2022		21,232
2023		16,937
2024		12,721
2025		8,514
Thereafter		<u>63,617</u>
Total lease payments		146,996
Less interest		<u>(20,211)</u>
Present value of lease liability	\$	<u><u>126,785</u></u>

Average operating lease terms and discount rate at June 30, 2020 were as follows:

Weighted average remaining lease term (years):	12.55
Weighted average discount rate:	2.08 %

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The following summarizes cash paid for operating lease liabilities and other non cash information:

	June 30, 2020
Cash paid for amounts included in the measurement of operating lease liability	\$ 32,824
Right-of-use assets obtained in exchange for operating lease obligations	11,270

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2020 are as follows (in thousands):

2021	19,312
2022	19,445
2023	19,581
2024	19,719
2025	19,860
Thereafter	101,504
Total minimum lease payments to be received	\$ 199,421

The rental income was approximately \$19 million for both years ended June 30, 2020, and 2019, respectively, and is included in other revenue on the consolidated statement of activities.

(7) Net Assets

The Organization monitors cash and investment reserve requirements across the entire enterprise to ensure service delivery can be performed. Management actively manages short and long-term cash needs against all available liquidity from cash, investments, and fair value of land, building, and equipment held for sale. As a result, it continues to have positive mission-related operating net assets, even though the Organization has pension-related and other long-term liabilities.

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2020 and 2019 (in thousands):

	2020	2019
Disaster and humanitarian services	\$ 122,093	199,796
International relief and development services	80,009	60,166
Endowment	1,034,439	1,013,098
Other net assets with restrictions to be held in perpetuity	184,878	174,573
Total with donor restrictions net assets	\$ 1,421,419	1,447,633

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

Endowment at June 30, 2020 and 2019 consist primarily of endowed contributions, the income from which is available principally to fund general operations. Other net assets with donor restrictions to be held in perpetuity consist of beneficial interests in perpetual trusts and other split-interest agreements (note 9).

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its operating expenditures and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. The restricted portion of its financial assets are excluded from the liquidity disclosure as they are used for restricted purposes.

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and scheduled principal payments on debt, were as follows (in thousands):

	<u>2020</u>
Financial assets:	
Cash and cash equivalents	\$ 235,415
Short-term investments net	348,443
Trade receivable, including grants, net of allowance for doubtful accounts	166,827
Contributions receivable	<u>16,150</u>
Total financial assets available within one year	766,835
Liquidity resources:	
Letters of credits and other credit facilities	<u>263,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,029,835</u>

(8) Endowments

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Organization is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets and in doing so to consider a number of factors, including the duration and preservation of its donor-restricted endowment funds. The Organization classifies as net assets with donor restrictions the original value of gifts donated to be held in perpetuity. The appreciation of the donor-restricted endowment fund is appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The Organization has adopted and the Governing Board has approved the Statement of Investment Policies and Objectives for the endowment fund. This policy has identified an appropriate risk posture for the fund, stated expectations and objectives for the fund, provides asset allocation guidelines, and establishes criteria to monitor and evaluate the performance results the fund's managers.

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

The Organization makes distributions from income earned on the endowment fund for current operations using the total return method. In establishing this method, the Organization considered the long-term expected return on its funds. To the extent that distributions exceed net investment income, they are made from accumulated gains. The Board of Governors approves the spending rate, calculated as a percentage of the five-year calendar trailing average fair value of the endowment fund at the beginning of each fiscal year.

A spending rate of 3.8% has been approved for year 2020, which resulted in total distributions of approximately \$37.9 million. The distributions represent utilization of accumulated realized gains, which were calculated based on the trailing five-year market value. Consistent with 2020, a spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2021.

Changes in endowment net assets for the year ended June 30, 2020 (in thousands):

	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 1,013,098	1,013,098
Total investment return, net	34,653	34,653
Contributions	24,587	24,587
Appropriation of endowment assets for expenditure	<u>(37,899)</u>	<u>(37,899)</u>
Endowment net assets, end of year	<u>\$ 1,034,439</u>	<u>1,034,439</u>

(9) Split-Interest Agreements

The Organization is a beneficiary of split-interest agreements in the form of charitable gift annuities, perpetual trusts held by third parties, charitable remainder trusts, and pooled income funds. The value of split-interest agreements is measured as the Organization's share of fair value of the assets. Of the \$259 million and \$253 million in assets under these agreements as of June 30, 2020 and 2019, respectively, which are included in other assets on the consolidated statement of financial position, \$42 million and \$41 million, respectively, are charitable gift annuities and the remainder are assets for which the Organization is not the trustee. Liabilities associated with these agreements are \$32 million and \$31 million for the years ended June 30, 2020 and 2019, respectively, of which \$8 and \$7 million is included in other current liabilities for the years ended June 30, 2020 and 2019, respectively and \$24 million is included in other noncurrent liabilities for both years on the consolidated statement of financial position.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(10) Benefit Plans

(a) *The Retirement System of the American National Red Cross and The American Red Cross Life and Health Benefits Plan*

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

Subject to provisions contained in collective bargaining agreements where applicable, the Plan was frozen on December 31, 2012 (the freeze date). Employees who were participating in the Plan as of that date keep vested benefits earned but stop earning additional pension benefits.

Prior to the freeze date, the benefit formula was based on years of service and the employees' final average compensation. Final average compensation was calculated using the highest consecutive 48 months of the last 120 months of service before the earlier of retirement or the freeze date.

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined-benefit pension, funded entirely by the employer. Prior to July 1, 2005, voluntary after-tax contributions could be made by active members to fund an optional annuity benefit. The Organization's funding policy is set to comply with the funding requirements established under the Pension Protection Act of 2006 and to meet the requirements of Employee Retirement Income Security Act of 1974. During fiscal year 2020, the Organization contributed above the required amount for the plan year.

The Plan was amended on January 1, 2019 to allow participants who have not previously commenced benefits to elect a lump-sum payment of their full vested benefit value if otherwise eligible to receive benefits under existing plan provisions, including the provision that the election must be made within the 180-days period commencing on the first day of the month on or next following termination of employment or be retirement eligible. The Plan was further amended effective January 1, 2020 to allow all vested terminated employees and retirement eligible who have not previously commenced benefits to elect lump sum payments. In addition, all previously available distribution options continue to be available.

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

Effective January 1, 2009, the Organization eliminated plan coverage (retiree medical and life benefits) for all future retirees that did not meet certain eligibility conditions as of that date. In addition, the plan was amended to transition Medicare eligible retirees to a private fee-for-service plan and to change the premium supplement tables and indexing effective July 1, 2009. Beginning in calendar year 2011, most Medicare eligible retirees were offered a Healthcare Reimbursement Account to utilize in purchasing

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

individual coverage through an external exchange program through Aon Hewitt Retiree Exchange. Plans can vary from Medicare Advantage, Part D Prescription Drug, and Medicare Supplement Plans.

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the consolidated statements of financial position for the years ended June 30, 2020 and 2019 (in thousands):

	Pension benefits		Postretirement benefits	
	2020	2019	2020	2019
Changes in benefit obligations:				
Benefit obligations at beginning of year	\$ 2,450,269	2,350,105	58,988	57,597
Service cost	42	502	27	53
Interest cost	90,437	102,369	1,968	2,339
Plan amendment	—	—	—	—
Actuarial loss	145,773	128,450	133	2,146
Benefits paid	(172,297)	(131,516)	(3,613)	(3,147)
Annuity purchase and reimbursements from insurance carriers	156	359	—	—
Benefit obligations at end of year	2,514,380	2,450,269	57,503	58,988
Changes in plan assets:				
Fair value of plan assets at beginning of year	2,010,272	1,911,088	—	—
Actual return on plan assets	449,049	195,992	—	—
Employer contributions	125,000	34,349	—	—
Benefits paid	(172,297)	(131,516)	—	—
Annuity purchase and reimbursements from insurance carriers	156	359	—	—
Fair value of plan assets at end of year	2,412,180	2,010,272	—	—
Funded status-accrued benefit costs	\$ <u>(102,200)</u>	<u>(439,997)</u>	<u>(57,503)</u>	<u>(58,988)</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

Pension-related changes other than net periodic benefit cost for 2020:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service benefit	\$ (2,727)	—	(2,727)
Amortized net loss (gain)	24,710	(1,302)	23,408
Net actuarial gain	207,152	2,787	209,939
	<u>\$ 229,135</u>	<u>1,485</u>	<u>230,620</u>

Pension-related changes other than net periodic benefit cost for 2019:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service benefit	\$ (2,727)	(230)	(2,957)
Amortized net loss (gain)	18,797	(2,284)	16,513
Net actuarial (loss) gain	(51,664)	1,122	(50,542)
	<u>\$ (35,594)</u>	<u>(1,392)</u>	<u>(36,986)</u>

Items not yet recognized as a component of net periodic benefit cost for 2020:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit	\$ (18,333)	—	(18,333)
Unrecognized net actuarial loss	733,438	8,163	741,601
	<u>\$ 715,105</u>	<u>8,163</u>	<u>723,268</u>

Items not yet recognized as a component of net periodic benefit cost for 2019:

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Unrecognized prior service credit	\$ (21,061)	—	(21,061)
Unrecognized net actuarial loss (gains)	965,299	(9,598)	955,701
	<u>\$ 944,238</u>	<u>(9,598)</u>	<u>934,640</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

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

	<u>Pension benefits</u>	<u>Postretirement benefits</u>	<u>Total</u>
Prior service credit	\$ (2,727)	—	(2,727)
Net actuarial loss (gain)	28,572	(747)	27,825
	<u>\$ 25,845</u>	<u>(747)</u>	<u>25,098</u>

The accumulated benefit obligation for the pension plan was approximately \$2.5 billion and \$2.4 billion as of June 30, 2020 and 2019, respectively.

The weighted average assumptions used to determine benefit obligations for 2020 and 2019 were as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Discount rate	3.37 %	3.88 %	2.60 %	3.45 %

The weighted average assumptions used to determine net benefit cost for 2020 and 2019 were as follows:

	<u>Pension benefits</u>		<u>Postretirement benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Discount rate	3.88 %	4.49 %	3.45 %	4.20 %
Expected return on plan assets	6.00	6.00	—	—

The expected rate of return assumption on Plan assets was determined by considering current economic and market conditions and by reviewing asset class allocations, historical return analysis, and forward-looking capital market expectations. Asset class allocations were established by considering each class' risk premium commensurate for the level of risk, duration that matches the Plan's liabilities, and incremental diversification benefits. Historical returns and forward-looking capital market expectations were gathered from and compared among the Plan's investment managers and a sampling of the consultant community.

For measurement purposes, approximately a 7% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2020. For measurement purposes, approximately a 7.25% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2019. For both years the rate was assumed to decrease gradually to 4.50% through 2030 and remain at that level thereafter.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The components of net periodic benefit cost (credit) for the years ended June 30, 2020 and 2019 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2020	2019	2020	2019
Service cost	\$ 42	502	27	53
Interest cost	90,437	102,369	1,968	2,339
Expected return on plan assets	(114,910)	(119,207)	—	—
Amortization of prior service credit	(2,727)	(2,727)	—	(230)
Net amortization loss (gain)	<u>24,709</u>	<u>18,797</u>	<u>(1,302)</u>	<u>(2,284)</u>
Net periodic benefit cost (credit)	\$ <u>(2,449)</u>	<u>(266)</u>	<u>693</u>	<u>(122)</u>

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (in thousands):

	Point increase	Point decrease
Effect on total of service and interest cost components	\$ 2	2
Effect on postretirement benefit obligation	63	(56)

There is no minimum funding requirement for the pension plan during the year ended June 30, 2020.

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

	Pension benefits	Postretirement benefits
2021	\$ 239,459	3,828
2022	179,866	3,791
2023	173,110	3,757
2024	164,777	3,694
2025	163,244	3,632
2026–2030	<u>757,335</u>	<u>17,017</u>
	\$ <u>1,677,791</u>	<u>35,719</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The Organization has investment guidelines for the Retirement System (the Plan) assets. The overall objective of the guidelines is to ensure the Plan's assets appropriately hedge the liability risks and also considering other market risks while ensuring that the portfolio income and liquidity are appropriate to meet the Plan's benefit payments and other expenses. The Plan's investments are designed in such manner that no single investment would have a disproportionate net impact on the plan funded status. The Plan's asset allocation is reviewed regularly with current market assumptions to realign the asset mix with the long-term investment goals for the Plan. (See note 4 for descriptions of the methodologies used to value Plan's assets, including discounted cash flow analysis, comparable analysis, or third-party appraisals. See note 4 for the definitions of Levels 1, 2, and 3.)

The Plan's assets were invested in the following categories at June 30, 2020 and 2019:

	Pension assets	
	2020	2019
Cash and short-term investments	12 %	6 %
Equity	—	7
Fixed income	72	64
Marketable and nonmarketable alternative funds	16	23
	<u>100 %</u>	<u>100 %</u>

The Plan's assets were within authorized asset allocation ranges at June 30, 2020 and 2019.

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2020 (in thousands):

	June 30, 2020	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed-income commingled funds	\$ 155,384	—	155,384	—	—
Corporate obligations	526,782	—	526,782	—	—
Foreign government and sovereign securities	15,049	—	15,049	—	—
U.S. government and sovereign securities	1,036,170	—	1,036,170	—	—
Hedge funds	175	175	—	—	—
Private equity and debt	207,004	—	—	—	207,004
Real estate and real assets	179,152	—	—	—	179,152
Derivative contracts	12,705	4,278	8,427	—	—
Cash and cash equivalents	279,759	14,411	265,348	—	—
Total plan assets	<u>\$ 2,412,180</u>	<u>18,864</u>	<u>2,007,160</u>	<u>—</u>	<u>386,156</u>

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2019 (in thousands):

	June 30, 2019	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed-income commingled funds	\$ 95,174	—	95,174	—	—
Corporate obligations	323,690	—	323,690	—	—
Foreign government and sovereign securities	5,948	—	5,948	—	—
U.S. government and sovereign securities	842,667	—	842,667	—	—
Equity commingled funds	149,537	38,915	91,609	—	19,013
Hedge funds	316,637	—	—	—	316,637
Private equity and debt	150,912	—	—	—	150,912
Real estate and real assets	2,447	—	—	—	2,447
Derivative contracts	32	171	(139)	—	—
Cash and cash equivalents	123,228	86,249	36,979	—	—
Total plan assets	\$ 2,010,272	125,335	1,395,928	—	489,009

(1) Certain investments are measured at fair value using NAV as a practical expedient and have not been classified in the fair value hierarchy. The NAV amounts have been presented to permit reconciliation of the fair value hierarchy to the amounts presented as total plan assets.

The Organization had no reportable Level 3 transactions for its defined-benefit plan for the year ended June 30, 2020.

On behalf of the Plan, the Organization transacts in a variety of derivative instruments, including exchange-traded products (ETNs and ETFs), forwards, swaps, options, and futures. Derivatives are used for investment purposes, such as hedging, replication, completion, diversification, and tail-risk reduction. Each instrument's primary underlying exposure is generally interest rates, equities, commodities, or currencies. Such contracts could involve counterparty risk to varying degrees (i.e., risk of loss from the possible inability of counterparties to meet the terms of their contracts). In the case of over-the-counter derivatives, collateralization and daily marks-to-market mitigate counterparty risk.

The Plan makes special use of derivatives to hedge (partially or fully) the interest rate exposure of its pension liabilities. The liabilities are valued via a "discount rate" of investment grade corporate bonds. Uncertainty of future discount rates adds variability to the Plan's funded status as liability valuations shift with rates. Hedging looks to reduce that risk. During the fiscal year ended June 30, 2020, the Plan used interest rate futures to manage interest rate exposure and credit default swaps to manage the credit spread exposure. Management of interest rate exposure may change over time based upon a variety of factors, such as market conditions, perceived investment opportunities and risks, and investment goals and objectives.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

The following table lists the notional/contractual amount of derivatives by contract type included in pension plan assets at June 30, 2020 and 2019 (in thousands):

Derivative type	2020	2019
Interest rate contracts	\$ 513,892	(10,777)
Credit default swaps	1,153,607	(9,400)
Equity contracts	299,630	—

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2020 and 2019 (in thousands):

Derivative type	Derivative assets		Derivative liabilities	
	2020	2019	2020	2019
Interest rate contracts	\$ 4,329	214	(45)	386
Credit default swaps	13,159	203	153	—
Equity contracts	—	—	(4,893)	—
Fair value of derivatives included in investments	\$ 17,488	417	(4,785)	386

The following table lists gains and losses on derivatives by contract type included in actual return on plan assets available for plan benefits as of June 30, 2020 and 2019 (in thousands):

Derivative type	Realized gains		Change in unrealized gains/(losses)	
	2020	2019	2020	2019
Interest rate contracts	\$ 60,604	29,433	4,328	(7,755)
Credit default swaps	7,567	9	2,556	21
Equity contracts	54,302	6,386	(4,893)	264
Total	\$ 122,473	35,828	1,991	(7,470)

For the valuation of the Plan's derivative contracts at June 30, 2020, the Plan used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves, measures of interest rate volatility, and various market indices. The value was determined and adjusted to reflect nonperformance risk of both the counterparty and the Plan.

THE AMERICAN NATIONAL RED CROSS

Notes to Consolidated Financial Statements

June 30, 2020

(With summarized information for the year ended June 30, 2019)

(b) American National Red Cross Savings Plan – 401(k) Plan

The Organization sponsors the American Red Cross Savings Plan (the Savings Plan), a defined-contribution plan. In general, employees are eligible to participate upon hire and vest in employer contributions on a three-year cliff schedule. Employer contributions include Red Cross match only. There were \$33 million and \$33.5 million in Red Cross employer contributions to the Savings Plan in 2020 and 2019, respectively.

(11) Receivables Securitization Program

The Organization has an asset securitization program. The program is structured to sell the eligible biomedical hospital account receivables, without legal recourse, to a third-party investor, through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Organization continues servicing the sold receivables. Proceeds received under the securitization program are treated as secured borrowings. The maximum amount of the agreement is \$125 million for years ended June 30, 2020 and 2019 and the total cost of the program approximates the 30-day LIBOR plus 1%. At June 30, 2020 and 2019, the amount of outstanding borrowings under the securitization program was \$119 million and \$111 million, respectively, and is included in other current liabilities on the statement of financial position.

(12) Commitments and Contingencies

(a) 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.

(b) Government Grants

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

(13) Subsequent Events

The Organization has evaluated subsequent events through the date the consolidated financial statements were issued, October 21, 2020.