KPMG

THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements
with Schedule of Operating Revenues and Expenses
for the Tennessee Region

June 30, 2016

(With Independent Auditors' Report Thereon)

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with Schedule of Operating Revenues and Expenses
for the Tennessee Region

June 30, 2016

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KPMG LLP
1676 International Drive
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, 2016, 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 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 entity'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 entity'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, 2016, and the changes in their net assets, their functional expenses and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The American National Red Cross 2015 consolidated financial statements, and expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the Schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

McLean, Virginia
October 27, 2016, except for the supplemental information included in the Schedule, which is as of December 5, 2016

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2016
(with comparative information as of June 30, 2015)

(In thousands)

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 83,344	$ 119,322
Investments (Note 4)	475,624	397,845
Trade receivables, including grants, net of allowance for doubtful accounts of $2,398 in 2016 and $3,066 in 2015 (Note 11)	197,120	191,582
Contributions receivable, net (Note 2)	66,430	76,010
Inventories, net of allowance for obsolescence of $833 in 2016 and $7,298 in 2015	38,179	71,555
Other current assets	32,226	16,854
Total current assets	892,923	873,168
Investments (Note 4)	1,157,730	1,385,927
Contributions receivable, net (Note 2)	8,672	8,751
Land, buildings, and other property, net (Note 3)	879,168	845,053
Assets held for sale, net (Note 3)	50,662	117,078
Other assets (Note 9)	246,651	256,165
Total assets	$ 3,235,806	$ 3,486,142
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable and accrued expenses	$ 251,737	$ 260,977
Current portion of debt (Note 5)	30,715	41,809
Postretirement benefits (Note 10)	3,665	3,800
Other current liabilities (Note 9 and 11)	141,644	154,933
Total current liabilities	427,761	461,519
Debt (Note 5)	572,234	603,172
Pension and postretirement benefits (Note 10)	1,103,157	682,514
Other liabilities (Notes 5 and 9)	146,981	145,127
Total liabilities	2,250,133	1,892,332
Net assets (Notes 7 and 8):		
Unrestricted cash available for operations, net investment in land, buildings and other property, and other net assets	1,300,424	1,351,700
Pension and postretirement benefits and other long term liabilities	(1,724,876)	(1,302,024)
Unrestricted net assets	(424,452)	49,676
Temporarily restricted net assets	602,314	751,529
Permanently restricted net assets	807,811	792,605
Total net assets	985,673	1,593,810
Commitments and contingencies (Notes 4, 5, 6, 10, 11)		
Total liabilities and net assets	$ 3,235,806	$ 3,486,142

See accompanying Notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2016
(with summarized information for the year ended June 30, 2015)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2016	Totals 2015
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	$ 170,300	$ 208,065	$ 71	$ 378,436	$ 397,193
United Way and other federated	11,790	54,070	—	65,860	76,918
Legacies and bequests	61,616	9,829	25,379	96,824	105,810
Services and materials	51,016	10,337	—	61,353	23,744
Products and services:					
Biomedical	1,746,336	—	—	1,746,336	1,798,176
Program materials	132,606	—	—	132,606	126,883
Contracts, including federal government	74,119	—	—	74,119	66,088
Investment income (Note 4)	47,596	37,745	—	85,341	107,559
Other revenues	19,095	168	—	19,263	35,142
Net assets released from restrictions	400,157	(400,157)	—	—	—
Total operating revenues and gains	2,714,631	(79,943)	25,450	2,660,138	2,737,513
Operating expenses:					
Program services:					
Services to the Armed Forces	65,231	—	—	65,231	48,744
Biomedical services	1,736,307	—	—	1,736,307	1,869,188
Community services	33,164	—	—	33,164	43,128
Domestic disaster services	332,740	—	—	332,740	356,496
Health and safety services	148,310	—	—	148,310	146,590
International relief and development services	119,709	—	—	119,709	129,807
Total program services	2,435,461	—	—	2,435,461	2,593,953
Supporting services:					
Fund raising	169,676	—	—	169,676	180,934
Management and general	116,402	—	—	116,402	121,952
Total supporting services	286,078	—	—	286,078	302,886
Total operating expenses	2,721,539	—	—	2,721,539	2,896,839
Change in net assets from operations	(6,908)	(79,943)	25,450	(61,401)	(159,326)
Nonoperating investments gains(losses) (Note 4)	(66,869)	(69,272)	(10,244)	(146,385)	(55,005)
Pension-related changes other than net periodic benefit cost (Note 10)	(400,351)	—	—	(400,351)	(152,617)
Change in net assets	(474,128)	(149,215)	15,206	(608,137)	(366,948)
Net assets, beginning of year	49,676	751,529	792,605	1,593,810	1,960,758
Net assets, end of year	$ (424,452)	$ 602,314	$ 807,811	$ 985,673	$ 1,593,810

See accompanying Notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Statement of Functional Expenses

Year ended June 30, 2016
(with summarized information for the year ended June 30, 2015)

(In thousands)

	Program services						
	Services to the Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief & Development Services	Total Program Services
Salaries and wages	$ 25,542	$ 777,956	$ 13,815	$ 94,164	$ 57,517	$ 21,663	$ 990,657
Employee benefits	6,772	206,257	3,663	24,965	15,249	5,743	262,649
Subtotal	32,314	984,213	17,478	119,129	72,766	27,406	1,253,306
Travel and maintenance	2,152	24,114	302	21,243	5,449	4,617	57,877
Equipment maintenance and rental	973	53,810	1,221	8,744	1,795	3,009	69,552
Supplies and materials	1,051	389,408	1,387	7,785	13,358	674	413,663
Contractual services	8,264	246,446	4,873	47,706	48,442	22,284	378,015
Financial and material assistance	19,245	2,364	6,732	119,536	1,206	61,518	210,601
Depreciation and amortization	1,232	35,952	1,171	8,597	5,294	201	52,447
Total expenses	$ 65,231	$ 1,736,307	$ 33,164	$ 332,740	$ 148,310	$ 119,709	$ 2,435,461

	Supporting services			Total expenses	
	Fund raising	Management and general	Total supporting services	2016	2015
Salaries and wages	$ 77,116	$ 50,024	$ 127,140	$ 1,117,797	$ 1,180,954
Employee benefits	20,445	13,263	33,708	296,357	346,860
Subtotal	97,561	63,287	160,848	1,414,154	1,527,814
Travel and maintenance	4,623	2,962	7,585	65,462	57,719
Equipment maintenance and rental	2,417	3,255	5,672	75,224	72,998
Supplies and materials	2,007	115	2,122	415,785	489,897
Contractual services	57,809	41,423	99,232	477,247	490,879
Financial and material assistance	576	667	1,243	211,844	193,726
Depreciation and amortization	4,683	4,693	9,376	61,823	63,806
Total expenses	$ 169,676	$ 116,402	$ 286,078	$ 2,721,539	$ 2,896,839

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2016
(with comparative information for the year ended June 30, 2015)

(In thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (608,137)	$ (366,948)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	61,823	63,806
Provision for doubtful accounts receivable	(897)	(4,167)
Recovery of provision for obsolete inventory	(6,465)	3,466
Net (gain)/loss on sales of property	3,191	(846)
Net investment and derivative (gain) loss	94,549	(14,870)
Pension and postretirement related changes other than net periodic benefit costs	400,351	152,617
Permanently restricted contributions	(25,450)	(32,460)
Changes in operating assets and liabilities:		
Receivables	5,018	14,163
Inventories	39,841	33,958
Other assets	(5,858)	5,394
Accounts payable and accrued expenses	(9,240)	(19,892)
Other liabilities	(11,556)	18,780
Pension and postretirement benefits	20,157	9,861
Net cash used in operating activities	(42,673)	(137,138)
Cash flows from investing activities:		
Purchases of property	(60,311)	(31,831)
Proceeds from sales of property	1,322	2,435
Proceeds from properties held for sale	26,276	—
Purchases of investments	(454,668)	(60,379)
Proceeds from sales of investments	510,658	367,571
Net cash provided by investing activities	23,277	277,796
Cash flows from financing activities:		
Permanently restricted contributions	25,450	32,460
Proceeds from borrowings	—	2,100
Repayments of debt	(42,032)	(102,872)
Net cash used in financing activities	(16,582)	(68,312)
Net (decrease) increase in cash and cash equivalents	(35,978)	72,346
Cash and cash equivalents, beginning of year	119,322	46,976
Cash and cash equivalents, end of year	$ 83,344	$ 119,322
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 24,975	$ 25,997

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

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.

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, ARC Receivables Company, LLC, a wholly owned bankruptcy-remote special purpose entity, and Delta Blood Bank, LLC, a wholly owned blood bank. All significant intra-organizational accounts and transactions have been eliminated.

Program activities include services to the Armed Forces, biomedical services, community services, disaster services, health and safety 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, three national testing laboratories, 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:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

The consolidated financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2015 from which the summarized information was derived.

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.

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 $64 million and $92 million as of June 30, 2016 and 2015, respectively.

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. 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, 2016. 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.

In fiscal year 2016, the Organization adopted ASU 2015-07, Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent). ASU 2015-07 removes the requirement to classify within the fair value hierarchy investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the consolidated statements of financial position. See Note 4.

Investment income classified as operating revenue consists of interest and dividend income on investments and any gains approved for use in operations (Note 4). All other realized and unrealized 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 are available for operations in the next fiscal year.

Derivative Financial Instruments: The Organization makes use of derivative financial instruments in order to create or mitigate certain risks. Derivative financial instruments are recorded at fair value (Note 4). Derivatives in an asset and liability position are offset against each other and reported net in investments in the statement of financial position.

Endowment Fund: The Organization has maintained a national endowment fund since 1905. Since 1910, 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 permanently restricted to be kept and invested in perpetuity and, accordingly, reported as permanently restricted net assets. 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 unrestricted net assets. All gifts to the American Red Cross National Headquarters that are designated to be permanently restricted shall continue to be deposited into the Endowment Fund regardless of the date of the gift instrument.

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 market.

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

Property under capital leases is amortized over the lease term. 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.

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

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

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.

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 $91 million and $92 million as of June 30, 2016 and 2015, respectively.

Revenue Recognition*:* 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 substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

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

Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

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

Revenues from grants and contracts, including those from federal agencies, are generally reported as unrestricted contract revenue and are recognized as qualifying expenses are incurred under the agreement.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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 approximately 314,000 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, 2016 includes the services of approximately 11,200 volunteers. The Organization recorded contributed services revenue and related expense for the year ended June 30, 2016 of approximately $36 million. During year ended June 30, 2016, the Organization developed systems to track the contributed services of certain volunteers meeting the above criteria for the first time. Of the $36 million recorded in 2016, $31 million related to these volunteers, primarily reflecting 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.

(Continued)

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, 2016 and 2015, the Organization has determined that no income taxes are due for its 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.

Accounts Receivable Securitization: The Organization has an accounts receivable securitization program that is accounted under Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* (Note 11).

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2016 and 2015 (in thousands):

		2016	2015
Amounts receivable within one year	$	69,264	79,074
Amounts receivable in 1 to 5 years (net of discount of $771 and $341 for 2016 and 2015, respectively)		8,672	8,751
Total contributions receivable before allowance for uncollectible amounts		77,936	87,825
Less allowance for uncollectible amounts		(2,834)	(3,064)
Contributions receivable, net		75,102	84,761
Less current portion		66,430	76,010
Contributions receivable, net, noncurrent	$	8,672	8,751

Amounts presented above have been discounted to present value using various discount rates ranging between 0.1% and 2.64%.

(Continued)

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2016 and 2015 (in thousands):

		2016	2015
Land	$	109,554	120,366
Buildings and improvements		1,070,812	1,014,982
Equipment and software		562,645	693,911
Total cost of assets placed in service		1,743,011	1,829,259
Less accumulated depreciation and amortization		(884,327)	(998,138)
Construction-in-progress		20,484	13,932
Land, buildings, and other property, net	$	879,168	845,053

Assets held for sale were as follows at June 30, 2016 and 2015 (in thousands):

		2016	2015
Land	$	12,601	2,902
Buildings and improvements		68,702	163,634
Total cost of assets held for sale		81,303	166,536
Less accumulated depreciation and amortization		(30,641)	(49,458)
Assets held for sale, net	$	50,662	117,078

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 ASU 205 2014-08, Topic 360, *Property, Plant, and Equipment*. 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.

At June 30, 2015, all held for sale criteria were met for assets valued at approximately $74 million, net. As of June 30, 2016, these assets cease to meet all the necessary criteria to be classified as held for sale. As such, these assets are included in land, buildings, and other property no longer held for sale.

(4) Investments and Fair Value Measurements

The Organization applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 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 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.

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, 2016 and 2015, 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.

(Continued)

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2016 and 2015 (in thousands):

	June 30, 2016	Level 1	Level 2	Level 3	Measured at NAV (1)
Fixed Income Commingled Funds	$ 191,619	—	191,619	—	—
Equity Commingled Funds	219,285	—	219,285	—	—
Fund of Hedge Funds	1,689	—	—	—	1,689
Global Macro Hedge Funds	45,346	—	—	—	45,346
Equity Hedge Funds	171,746	—	—	—	171,746
Multistrategy and Other Hedge Funds	190,584	—	—	104	190,480
Buyout and Growth Equity Funds	114,294	—	—	4,918	109,376
Distressed Debt Funds	35,706	—	—	—	35,706
Other Private Market Funds	28,965	—	—	—	28,965
Private Real Estate Funds	38,884	—	—	11,493	27,391
Venture Capital Funds	12,538	—	—	—	12,538
Derivative Contracts	536		536	—	—
Money Market Funds and Other	582,162	3,917	578,245	—	—
Total investments	$ 1,633,354	3,917	989,685	16,515	623,237

	June 30, 2015	Level 1	Level 2	Level 3	Measured at NAV(1)
U.S. Government Securities	$ 23,159	9,720	13,439	—	—
Corporate and Sovereign Bonds and Notes	72,904	—	72,904	—	—
Mortgage-Backed Securities	5,420	—	5,420	—	—
Fixed Income Commingled Funds	161,878	110,886	50,992	—	—
Common and preferred stocks	164,277	164,277	—	—	—
Equity Commingled Funds	138,539	80,796	57,743	—	—
Fund of Hedge Funds	71,264	—	—	—	71,264
Global Macro Hedge Funds	63,272	—	—	—	63,272
Equity Hedged Funds	201,255	—	—	—	201,255
Multistrategy and Other Hedge Funds	134,318	—	—	91	134,227
Buyout and Growth Equity Funds	138,851	—	—	4,847	134,004
Distressed Debt Funds	37,548	—	—	—	37,548
Other Private Market Funds	31,485	—	—	—	31,485
Private Real Estate Funds	44,856	—	—	13,693	31,163
Venture Capital Funds	13,624	—	—	—	13,624
Derivative Contracts	1,402	—	1,402	—	—
Money Market and Other	479,720	7,425	472,295	—	—
Total investments	$ 1,783,772	373,104	674,195	18,631	717,842

(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 money markets and other investments at June 30, 2016, and for the valuation of certain U.S. government securities, corporate and sovereign bonds and notes, common and preferred stocks, fixed income and equity commingled funds, and money market funds and other, at June 30, 2015.

For the valuation of certain U.S. fixed income and equity government securities, fixed income commingled funds, and money market funds and other, at June 30, 2016 and June 30, 2015, 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 determined fair value.

For the most part, the valuation of hedge funds, buyout and growth equity funds, distressed debt and turnaround funds, private real estate funds, venture capital funds, other private market funds, and commodity funds at June 30, 2016 and 2015, 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; management 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 following table presents the Organization's activity for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the year ended June 30, 2016 (in thousands):

		Balance as of June 30, 2015	Purchases	Settlements	Change in unrealized gains (losses)	Balance as of June 30, 2016
Multistrategy and other hedge funds	$	91	872	(872)	13	104
Buyout and growth equity funds		4,847	18	(237)	290	4,918
Private real estate funds		13,693	181	(1,530)	(851)	11,493
Total	$	18,631	1,071	(2,639)	(548)	16,515

(Continued)

		Balance as of June 30, 2014	Purchases	Settlements	Change in unrealized gains (losses)	Balance as of June 30, 2015
Multistrategy and other hedge funds	$	208	—	(59)	(58)	91
Buyout and growth equity funds		4,978	20	(13)	(138)	4,847
Private real estate funds		12,751	486	(1,548)	2,004	13,693
Total	$	17,937	506	(1,620)	1,808	18,631

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, 2016 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of Hedge Funds (a)	$	1,689	—	N/A	fully redeemed
Global Macro Hedge Funds (b)		45,346	—	monthly	5-90 days
Equity Hedge Funds (c)		171,746	10,000	monthly to bi-annually*	45–90 days
Multistrategy and Other Hedge Funds (d)		190,480	3,200	daily to bi-annually*	7–90 days
Buyout and Growth Equity Funds (e)		109,376	43,879	None	—
Distressed Debt Funds (f)		35,706	8,248	None	—
Other Private Market Funds (g)		28,965	11,242	None	—
Private Real Estate Funds (h)		27,391	18,570	None	—
Venture Capital Funds (i)		12,538	14,926	None	—
Total	$	623,237	110,065		

* bi-annually defined as every two years

(a) The assets in this category consist of an audit holdback, a provision allowing a fund to retain a portion of the redemption proceeds until the fund's annual audit is completed in order to guard against adjustments to the fund's NAV after the full redemption from the fund.

(b) The funds in this category invest primarily in liquid instruments such as fixed income, currency, commodities, equities, and derivatives. The funds include long and short positions and may use leverage. Some funds may invest in illiquid investments, which are typically segregated into "side pockets" (a separate share class) and are not available for redemption until the investment is liquidated by the manager.

(c) This category is invested in hedge funds that invest primarily in US and international equities as well as derivatives. The funds include long and short positions and may use leverage. Some funds may invest in illiquid investments, which are typically segregated into “side pockets” (a separate share class) and are not available for redemption until the investment is liquidated by the manager.

(d) The strategies of the funds in this category include relative value, event driven, and arbitrage strategies. Underlying investments are typically the same as those held in public equity and fixed income commingled funds; this includes bank debt, convertible bonds and derivative instruments. The funds include long and short positions and may use leverage. Some funds may invest in illiquid investments which are typically segregated into “side pockets” (a separate share class) and are not available for redemption until the investment is liquidated by the manager.

(e) This category is invested in both US and international private equity funds and funds of funds whose mandates include leveraged buyouts and growth equity investments in companies.

(f) This category is invested in funds which primarily invest in distressed situations. Investments include marketable securities such as debt obligations and asset backed securities as well as nonmarketable investments such as nonperforming and sub-performing real estate loans, consumer loans, and distressed debt. Some funds include short positions.

(g) This category is invested in funds and a fund of funds which make investments primarily in private oil and gas partnerships, timber, mineral and mining companies, health care royalties, and infrastructure such as ports, toll roads, airports and utilities.

(h) This category includes funds and funds of funds, which invest in private real estate internationally and in the US. Property types are primarily office, industrial, residential and retail.

(i) This category is invested in venture capital funds and funds of venture capital funds. Underlying investments are primarily private investments in early and late-stage companies.

(b), (c), (d) Investments in this category have provisions which allow for the suspension of redemptions in unusual circumstances. Certain investments in these categories have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions if they receive redemptions in excess of the gate (a level stated in their governing documents). The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

(e), (f), (g), (h), (i) These nonmarketable funds do not permit redemptions. The timing of the return of capital is at the manager’s discretion, subject to provisions documented in limited partnership agreements. In general, capital and realized gains are distributed to investors when an investment is liquidated. Interim distributions of interest, operating income and dividends are made by some funds. Some funds are able to recall distributions. It is estimated that the majority of underlying assets of the funds will be liquidated over the next ten years. The fair values of the investments in this category have been estimated using the net asset value of the Organization’s ownership interest in the partners’ capital.

The Organization transacts in a variety of derivative instruments and contracts including both swaps and options for investment and hedging purposes in order to create or mitigate certain exposures. Each instrument's primary underlying exposure is equities or commodities. Such contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Use of swaps mitigates counterparty risk. The Organization's derivatives are all transacted over-the-counter.

Equity options are used by the Organization for both investment purposes and to hedge equity market exposure; all equity contracts are marked to fair value on a recurring basis. The notional/contractual amounts of these equity option contracts were $180 million and $240 million at June 30, 2016 and 2015, respectively. As of June 30, 2016, the derivative contract fair value totaled $536 thousand (derivative asset value). As of June 30, 2015, the derivative contract fair value had a derivative asset value of $1.4 million and a derivative liability value of $24 thousand.

In conjunction with its derivative investments, the Organization realized losses of $4.6 million and $5.8 million, respectively, for the one-year periods ended June 30, 2016 and 2015; this represented equity, commodity, and foreign exchange investment activity. On an unrealized basis, for the one-year periods ended June 30, 2016 and 2015, the derivative investment activity resulted in unrealized losses of $1.4 million and $59 thousand, respectively.

For the valuation of the Organization's derivative contracts at June 30, 2016, 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, 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 Organization.

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, 2016. However, the diversification of the Organization's invested assets among these various asset classes 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, 2016 and 2015 (in thousands):

	2016				2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Dividends and interest	$ 9,043	37,061	—	46,104	45,381
Net operating investment gains	38,553	684	—	39,237	62,178
Investment income available for operations	47,596	37,745	—	85,341	107,559
Net nonoperating investment gains (losses)	(66,869)	(69,272)	(10,244)	(146,385)	(55,005)
Total return on investments	$ (19,273)	(31,527)	(10,244)	(61,044)	52,554

(5) Debt

Debt consists of the following at June 30, 2016 and 2015 (in thousands):

	2016	2015
Fixed rate debt:		
Bearing interest rates ranging from 0% to 5.85%, due calendar year 2016 through 2044	$ 483,707	509,255
Variable rate debt:		
Bearing interest rates ranging from 0.01% to 1.16%, due calendar year 2016 through 2034:		
Variable rate debt with demand repayment rights	89,242	95,726
Variable rate debt without demand repayment rights	30,000	40,000
Total bonds and notes payable	602,949	644,981
Less current portion	30,715	41,809
Debt, noncurrent portion	$ 572,234	603,172

The Organization’s debt is generally backed only by the full faith and credit of The American National Red Cross. 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 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 with multiple banks in the aggregate amount of $61 million and $114 million for fiscal years 2016 and 2015, respectively, to provide liquidity in the event other funding is not available for repurchasing. As of June 30, 2016, the maturity dates for these liquidity facilities are in calendar year 2017. Approximately $10 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 remarketed on a weekly basis 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, 2016.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2016 are as follows (in thousands):

2017	$	30,715
2018		41,256
2019		31,187
2020		30,822
2021		30,727
Thereafter		438,242
	$	602,949

The carrying value and estimated fair value of the Organization's noncurrent debt as of June 30, 2016 and 2015 are summarized as follows (in thousands):

		2016		2015	
		Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
Noncurrent debt	$	572,234	644,526	603,172	629,278

The fair value estimate is based on quoted prices for bond issues with similar maturities and credit quality (Level 2). See Note 4 for definitions of Level 1, 2 and 3. The market prices utilized reflect the rate the Organization would have to pay a credit worthy third party to assume its obligation and do not reflect an additional liability to the Organization.

Interest expense was approximately $32 million and $33 million for the years ended June 30, 2016 and 2015, respectively, which is included in contractual services on the statement of functional expenses.

Bank Lines of Credit: The Organization maintained several committed and uncommitted lines of credit with various banks for its working capital requirements. As of June 30, 2016 and 2015, there were no borrowings outstanding under lines of credit. The Organization had unused lines of credit outstanding of approximately $275 million at June 30, 2016 and $340 million at June 30, 2015. The amounts available to be borrowed on the lines of credit are subject to the limitations of the Organization's debt covenants.

Interest Rate Swap Agreements: The Organization held variable rate debt of approximately $119 million and $136 million at June 30, 2016 and 2015, 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, 2016, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2016 through 2021, totaled $80 million. At June 30, 2015, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from 2015 through 2021, totaled $93 million. The estimated fair value of the interest rate swap agreements was a liability of approximately $5.7 million and $5.8 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2016 and 2015.

The change in fair value on these interest rate swap agreements was a gain of approximately $0.1 million and $1 million for the years ended June 30, 2016 and 2015, respectively, and is included in nonoperating gains in the consolidated statements of activities.

For the valuation of the interest rate swaps at June 30, 2016 and 2015, 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.

Letters of Credit: The Organization had unused letters of credit outstanding of approximately $55 million and $53 million at June 30, 2016 and 2015, respectively.

(6) Leases

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

2017	$	25,599
2018		18,991
2019		12,232
2020		9,039
2021		8,184
Thereafter		58,460
Total minimum lease payments	$	132,505

Total rent expense was approximately $45 million and $47 million for the years ended June 30, 2016 and 2015, respectively, and is included in contractual services on the consolidated statement of functional expenses.

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2016, are as follows (in thousands):

2017	$	16,263
2018		16,428
2019		16,598
2020		16,772
Total minimum lease payments to be received	$	66,061

Total rental income was approximately $16 million and $14 million for the years ended June 30, 2016, and 2015, respectively, and is included in other revenues on the consolidated statement of activities.

(7) Net Assets

Unrestricted net assets are comprised of the following at June 30, 2016 and 2015 (in thousands):

		2016	2015
Unrestricted net assets (deficit)	$	(424,452)	49,676
Add back (deduct) nonoperating items:			
Pension and postretirement benefits		1,106,822	686,314
Other long-term liaibilities		618,054	615,710
Net investment in land, buildings and other property		(778,007)	(712,464)
Unrestricted net assets available for current operations	$	522,417	639,236

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.

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2016 and 2015 (in thousands):

		2016	2015
Disaster services	$	11,237	25,484
International relief and development services		153,073	218,155
Buildings and equipment		5,665	6,183
Endowment inflation adjustment reserve		207,264	200,659
Endowment assets available for future appropriation		129,858	204,594
Other specific purposes		20,526	25,995
Time restricted		74,691	70,459
Total temporarily restricted net assets	$	602,314	751,529

Permanently restricted net assets at June 30, 2016 and 2015 consist primarily of endowed contributions, the income from which is available principally to fund general operations. Other permanently restricted net assets consist of beneficial interests in perpetual trusts and other split interest agreements (Note 9).

(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 permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 of 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 approximately 3.8% for both years 2016 and 2015 of the trailing five-year market value was applied to each unit of the endowment fund and resulted in total distributions of approximately $36 million and $34 million for the years ended June 30, 2016 and 2015, respectively. Approximately $29 million and $28 million of the amounts represent utilization of accumulated realized gains, for the years ended June 30, 2016 and 2015, respectively. A spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2017.

Net asset classification by type of endowment as of June 30, 2016, is as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	337,122	631,953	969,075

Changes in endowment net assets for the year ended June 30, 2016 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	—	405,253	609,129	1,014,382
Investment return:					
Investment income		—	36,154	—	36,154
Net depreciation (net realized and unrealized gains/losses)		—	(68,130)	—	(68,130)
Total investment return		—	(31,976)	—	(31,976)
Contributions		—	—	22,824	22,824
Appropriation of endowment assets for expenditure		—	(36,155)	—	(36,155)
Endowment net assets, end of year	$	—	337,122	631,953	969,075

(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 $244 million and $254 million in assets under these agreements as of June 30, 2016 and 2015, respectively, which are included in other assets on the consolidated statement of financial position, $38 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 $27 million and $25 million for the years ended June 30, 2016 and 2015, respectively, of which $3 million is included in other current liabilities and $24 million and $22 million is included in other noncurrent liabilities on the consolidated statement of financial position, respectively.

(10) Benefit Plans

The Plan of the American National Red Cross: 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. Effective July 1, 2009, 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 ERISA. During fiscal year 2016, the Organization opted to use the established credit balance and did not contribute to the Plan.

The Organization also has a Defined Benefit Pension Plan for the Delta Blood Bank LLC with a $5 million liability recorded in pension and postretirement benefits in the accompanying consolidated statement of financial position for both years ended as of June 30, 2016 and 2015, respectively, and pension-related changes other than net periodic benefit cost of approximately $2.1 million and $3.5 million for years ended June 30, 2016 and 2015, respectively. The Plan was terminated effective July 31, 2015 and the IRS favorable determination letter was received April 21, 2016.

The American Red Cross Life and Health Benefits Plan: The Organization also provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and the Organization each pay a portion of the premium costs. The medical and dental plans pay a stated percentage of expenses reduced by deductibles and other coverages. The Organization has the right to modify cost-sharing provisions at any time. In addition, life insurance benefits of $5,000 are provided with no contributions required from the retirees. The 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 (HRA) to utilize in purchasing 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, 2016 and 2015 (in thousands):

		Pension benefits		Postretirement benefits	
		2016	2015	2016	2015
Changes in benefit obligations:					
Benefit obligations at beginning of year	$	2,706,324	2,594,746	66,166	68,601
Service cost		1,031	1,589	153	213
Interest cost		132,400	122,263	2,810	2,859
Plan amendment		—	—	(2,838)	—
Actuarial loss (gain)		294,970	101,720	4,781	(1,985)
Benefits paid		(121,172)	(113,994)	(3,599)	(3,522)
Benefit obligations at end of year		3,013,553	2,706,324	67,473	66,166
Changes in plan assets:					
Fair value of plan assets at beginning of year		2,091,371	2,139,923	—	—
Actual return on plan assets		9,198	65,442	—	—
Benefits paid		(121,172)	(113,994)	—	—
Fair value of plan assets at end of year		1,979,397	2,091,371	—	—
Funded status-accrued benefit costs	$	(1,034,156)	(614,953)	(67,473)	(66,166)

Pension-related changes other than net periodic benefit cost for 2016:

		Pension benefits	Postretirement benefits	Total
Prior service cost	$	—	(687)	(687)
Amortized net loss (gain)		18,261	(1,261)	17,000
Net actuarial (loss) gain		(419,403)	640	(418,763)
	$	(401,142)	(1,308)	(402,450)

Pension-related changes other than net periodic benefit cost for 2015:

		Pension benefits	Postretirement benefits	Total
Prior service cost	$	—	(263)	(263)
Amortized net loss (gain)		16,580	(1,433)	15,147
Net actuarial (loss) gain		(165,922)	1,985	(163,937)
	$	(149,342)	289	(149,053)

Items not yet recognized as a component of net periodic benefit cost for 2016:

		Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	$	—	(2,588)	(2,588)
Unrecognized net actuarial loss (gains)		1,202,646	(7,146)	1,195,500
	$	1,202,646	(9,734)	1,192,912

Items not yet recognized as a component of net periodic benefit cost for 2015:

		Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	$	—	(509)	(509)
Unrecognized net actuarial loss (gains)		801,503	(13,188)	788,315
	$	801,503	(13,697)	787,806

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

		Pension benefits	Postretirement benefits	Total
Prior service cost (credit)	$	—	(1,180)	(1,180)
Net actuarial loss (gain)		29,701	(106)	29,595
	$	29,701	(1,286)	28,415

The accumulated benefit obligation for the pension plan was approximately $3 billion and $2.7 billion as of June 30, 2016 and 2015, respectively.

The weighted average assumptions used to determine benefit obligations for 2016 and 2015 were as follows:

	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Discount rate	4.20%	5.01%	3.50%	4.45%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2016 and 2015 were as follows:

	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Discount rate	5.01%	4.83%	4.45%	4.28%
Expected return on plan assets	6.50	6.25	—	—
Rate of compensation increase	5.00	5.00	—	—

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 7.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2016. The rate was assumed to decrease gradually to 5%

through 2025 and remain at that level thereafter. An 8.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2015. The rate was assumed to decrease gradually to 5% through 2023 and remain at that level thereafter.

The components of net periodic benefit cost (credit) for the years ended June 30, 2016 and 2015 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2016	**2015**	**2016**	**2015**
Service cost	$ 1,031	1,589	153	213
Interest cost	132,400	122,263	2,810	2,859
Expected return on plan assets	(133,631)	(129,644)	—	—
Amortization of prior service credit	—	—	(687)	(263)
Curtailment gain	—	—	(71)	—
Net amortization loss (gain)	18,261	16,580	(1,261)	(1,433)
Net periodic benefit cost (credit)	$ 18,061	10,788	944	1,376

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

	Point increase	Point decrease
Effect on total of service and interest cost components	$ 6	(5)
Effect on postretirement benefit obligation	100	(87)

The minimum funding requirement for the pension plan during the year ending June 30, 2017 is $70.2 million, which is expected to be partially offset by the available credit balance within the plan. The Organization expects to contribute $3.7 million to its postretirement benefit plan during the year ending June 30, 2017.

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
2017	$	136,168	3,729
2018		140,802	3,848
2019		146,082	3,955
2020		150,626	3,993
2021		154,810	4,055
2022–2026		827,546	20,330
	$	1,556,034	39,910

The Organization has investment guidelines for the Retirement System (the Plan) assets. The overall objective of the guidelines is to ensure the Plan assets provide capital growth over an extended period of time, while also considering market risks and ensuring that the portfolio income and liquidity are appropriate to meet the Plan benefit payments and other expenses. The Plan investments are required to be diversified by asset class and within each asset class in order that no single investment will have a disproportionate impact on the total portfolio. The Plan asset allocation is reviewed each year with current market assumptions to re-align the asset mix with the long-term goals of the Plan. (See Note 4 for descriptions of the methodologies used to value plan assets, except for the equity interest in the par annuity and guaranteed accumulation fund which are valued based on significant unobservable inputs including discounted cash flows analysis, comparable analysis, or third party appraisals. See Note 4 for the definitions of Levels 1, 2, and 3.)

The Plan assets were invested in the following categories at June 30, 2016 and 2015:

	Pension assets	
	2016	2015
Cash and short-term investments	3%	9%
Equity	17	15
Fixed income	38	29
Marketable and nonmarketable alternative funds	42	47
	100%	100%

The Plan assets were within authorized asset allocation ranges at June 30, 2016 and 2015.

The following tables represent pension plan assets that are measured at fair value on a recurring basis at June 30, 2016 and 2015 (in thousands):

	June 30, 2016	Level 1	Level 2	Level 3	Measured at NAV (1)
U.S. government securities	$ 195,904	149,049	46,855	—	—
Fixed income commingled funds	408,773	—	408,773	—	—
Equity commingled funds	146,340	—	146,340	—	—
Fund of hedge funds	639	—	—	—	639
Global macro hedge funds	64,386	—	—	—	64,386
Equity hedged funds	227,569	—	—	—	227,569
Multistrategy and other hedge funds	367,090	—	—	24	367,066
Buyout and growth equity funds	137,794	—	—	5,905	131,889
Distressed debt funds	47,056	—	—	—	47,056
Other private market funds	79,499	—	—	—	79,499
Private real estate funds	48,516	—	—	10,391	38,125
Venture capital funds	21,922	—	—	—	21,922
Equity interest in participating annuity surplus	60,376	—	—	60,376	—
Guaranteed accumulation fund	38,307	—	—	38,307	—
Derivative contracts	29,208	—	29,208	—	—
Money market and other	106,018	3,601	102,417	—	—
Total investments	$ 1,979,397	152,650	733,593	115,003	978,151

	June 30, 2015	Level 1	Level 2	Level 3	Measured at NAV (1)
U.S. government securities	$ 180,961	133,596	47,365	—	—
Corporate and sovereign bonds and notes	202,663	—	202,663	—	—
Fixed income commingled funds	113,196	21,985	91,211	—	—
Common and preferred stocks	173,877	173,877	—	—	—
Equity commingled funds	130,958	78,101	52,857	—	—
Fund of hedge funds	53,945	—	—	—	53,945
Global macro hedge funds	90,988	—	—	—	90,988
Equity hedged funds	250,437	—	—	—	250,437
Multistrategy and other hedge funds	223,561	—	—	23	223,538
Buyout and growth equity funds	168,248	—	—	5,927	162,321
Distressed debt funds	47,409	—	—	—	47,409
Other private market funds	91,804	—	—	—	91,804
Private real estate funds	59,745	—	—	12,829	46,916
Venture capital funds	24,477	—	—	—	24,477
Equity interest in participating annuity surplus	75,280	—	—	75,280	—
Guaranteed accumulation fund	32,414	—	—	32,414	—
Derivative contracts	(8,658)	—	(8,658)	—	—
Money market and other	190,066	5,609	184,457	—	—
Total investments	$ 2,101,371	413,168	569,895	126,473	991,835

(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 following tables presents the activity of the assets of the Organization’s defined benefit plan for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015 (in thousands):

	Balance as of June 30, 2015	Purchases	Settlements	Change in unrealized gains (losses)	Balance at June 30, 2016
Multistrategy and other hedge funds	$ 23	1	—	—	24
Buyout and growth equity funds	5,927	25	(332)	285	5,905
Private real estate funds	12,829	237	(1,657)	(1,018)	10,391
Equity interests in par annuity	75,280	—	(11,569)	(3,335)	60,376
Guaranteed accumulation fund	32,414	—	(1,528)	7,421	38,307
	$ 126,473	263	(15,086)	3,353	115,003

	Balance as of June 30, 2014	Purchases	Settlements	Change in unrealized gains (losses)	Balance at June 30, 2015
Multistrategy and other hedge funds	$ 106	—	(12)	(71)	23
Buyout and growth equity funds	6,111	28	(2)	(210)	5,927
Private real estate funds	12,543	607	(1,444)	1,123	12,829
Equity interests in par annuity	76,391	—	—	(1,111)	75,280
Guaranteed accumulation fund	38,630	—	(7,064)	848	32,414
	$ 133,781	635	(8,522)	579	126,473

The Plan transacts in a variety of derivative instruments and contracts including both swaps and options for investment and hedging purposes in order to create or mitigate certain exposures. Each instrument’s primary underlying exposure is interest rates, equities, commodities, or currencies. Such contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Use of swaps mitigates counterparty risk. The Plan’s derivatives are all transacted over-the-counter.

The Plan uses interest rate swaps and swaptions to hedge interest rate exposure for a portion of its liabilities. The liabilities are valued via a “discount rate” of investment grade corporate bonds. Uncertainty of future discount rates adds variability to Plan valuations and future cash flows. Interest rate swap and swaption agreements are derivative instruments used by the Plan to mitigate these uncertainties. The interest rate swap and swaption agreements are required to be marked to fair value on a recurring basis.

Equity options are used by the Organization for both investment purposes and to hedge equity market exposure; all equity contracts are marked to fair value on a recurring basis. Commodity swap agreements are used by the Organization to gain exposure to various underlying commodity futures; the commodity swaps are required to be marked to fair value on a recurring basis. The organization recognized realized losses of $1.5 million and $404 thousand for the years ended June 30, 2016 and 2015, respectively, related to commodity swap agreements held during fiscal years 2016 and 2015.

The following table lists the notional/contractual amount of derivatives by contract type included in pension plan assets at June 30, 2016 and 2015 (in thousands):

Derivative type		2016	2015
Interest rate	$	880,000	1,844,000
Equity		180,000	240,001

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2016 and 2015 (in thousands):

		Derivative asset		Derivative liability	
Derivative type		2016	2015	2016	2015
Interest rate	$	115,908	63,338	87,235	73,398
Equity		535	1,426	—	24
Fair value of derivatives included in pension net assets	$	116,443	64,764	87,235	73,422

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, 2016 and 2015 (in thousands):

		Realized gains/(losses)		Change in unrealized gains/(losses)	
Derivative type		2016	2015	2016	2015
Interest rate	$	13,205	33,175	46,231	(15,065)
Equity		(4,616)	(5,820)	(1,414)	521
Total	$	8,589	27,355	44,817	(14,544)

For the valuation of the Plan's derivative contracts at June 30, 2016, 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.

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 3 year cliff schedule. Employer contributions include Red Cross Match only. The Points-Based Employer Contribution and Annual Red Cross Contribution were discontinued following the final contributions allocated in September 2015. The Red Cross Match remained in effect. There were $32.1 million and $63.6 million in Red Cross employer contributions to the Savings Plan in 2016 and 2015, respectively.

For the 2016 calendar year, contribution limits were based on a maximum annual compensation of $18,000. As of June 30, 2016, there were 20 investment options that an employee could choose from and a self-managed brokerage account option.

(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, 2016 and 2015 and the total cost of the program approximates the 30 day Libor plus 1%. At June 30, 2016 and 2015, the amount of outstanding borrowings under the securitization program was $110 million and $120 million, respectively, and is included in other current liabilities on the statement of financial position.

(12) Commitments and Contingencies

Litigation: The Organization is a defendant in a number of lawsuits incidental to its operations. In the opinion of management, the outcome of such lawsuits will not have a materially adverse effect on the Organization’s financial position.

Consent Decree: In April 2003, The American National Red Cross signed an amended consent decree (the Decree) with the United States Food and Drug Administration (FDA) affecting Biomedical Services and its blood services regional operations. The Decree required compliance with specific standards on how the Organization will manage and monitor its Biomedical Services’ operations and formalized management of compliance related issues and provides timelines for their resolution. The Decree subjected the Organization to potential monetary penalties if it failed to meet the compliance standards. As of June 30, 2015, Organization’s consolidated financial statements reflected adequate accrual for potential penalties resulting from noncompliance with the requirements of the Decree. As of December 4, 2015, The American National Red Cross is no longer under the Consent Decree and the potential monetary penalties related to it. The Organization demonstrated a continuous period of sustained compliance with specific standards on how the Organization manages and monitors its Biomedical Services’ operations/compliance.

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 American National Red Cross is offering a lump sum special election window from September 1st through October 14, 2016 to terminated vested participants with the option to either cash out their retirement benefit or take an immediate annuity, which was actuarially reduced for early commencement. This option was made available to former employees who terminated their employment prior to July 1, 2016, were vested in the Retirement System of the American National Red Cross and were not receiving monthly payments. Special election window payments will be made upon submission of election forms starting in November 2016.

The Organization has evaluated subsequent events through the date the consolidated financial statements were issued, October 27, 2016.

Schedule

THE AMERICAN NATIONAL RED CROSS – Tennessee Region

Schedule of Operating Revenues and Expenses

Year ended June 30, 2016

Operating revenues and gains:		
Contributions:		
Corporate, foundation and individual giving	$	7,471,572
United Way and other federated		2,069,971
Legacies and bequests		520,497
Services and materials		1,394,253
Products and services		1,620,288
Contracts, including federal government		1,088,155
Investment income		47,929
Other revenues		18,788
Total operating revenues and gains		14,231,453
Operating expenses:		
Program services:		
Services to the Armed Forces		1,877,417
Biomedical services		14,051
Community services		122,473
Domestic disaster services		6,029,181
Health and safety services		2,033,799
International relief and development services		2,835
National disaster relief and humanitarian services		887,002
Total program services		10,966,758
Supporting services:		
Fundraising		2,450,656
Management and general		814,039
Total supporting services		3,264,695
Total operating expenses		14,231,453
Excess of operating revenues and expenses	$	—

See accompanying notes to schedule and independent auditors' report.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The American National Red Cross (the Organization) has a core of approximately 250 chartered local chapters organized in 61 regional groupings known as the chapter network (the Network). Each regional grouping services a specific geographical area. The accompanying Schedule of Operating Revenue and Expenses (Schedule) reflects program activities that have a day to day impact in the specific geographic area as well as support provided to national humanitarian services or other communities.

Program activities for regional operations include services to the Armed Forces, domestic disaster relief, activities in support of biomedical services, health and safety services, community services, and activities in support of international relief and development services. This schedule does not reflect the full operations of the biomedical services or the international relief and development operations, but rather the limited support activities associated with these two programs that are performed by chartered chapters. In addition, the Schedule does not present the consolidated changes in operating revenues and expenses of The American National Red Cross and may not be indicative of the operating revenues and expenses that would have been achieved if the regional grouping operated as an unaffiliated organization.

The chartered chapters and regional groupings are managed as one network; funds are raised for the Network and are used where needed. At different times, certain chapters may generate more funds than needed or need more funds than generated. Accordingly, the Network works as a support function to ensure that each community has the necessary funds to support The American National Red Cross' programs that are vital to each community. Funds are always used according to the wishes of the donor. Additional funds are used to serve the needs of the community where they were raised; any excess is used to support needs in other communities and national disaster relief operations as well as the greater humanitarian effort across the Organization. Support from the Network received by chapters or regional groupings are reported, when applicable, as support from American National Red Cross chapter network on the Schedule. Excess amounts provided by the chapter or regional grouping are reported, when applicable, as national disaster relief and humanitarian services on the Schedule.

The excess in operating revenues and expenses reported on the Schedule are reported in total and do not include classifications of net assets, revenues, gains, and losses based on the existence or absence of donor-imposed restriction.

(b) 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 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 approximately 314,000 volunteers. A small percentage of these volunteers meet the above criteria and are reported in contributed services. Contributed services in the region includes the services of 258 volunteers. The region recorded contributed services revenue and related expense of $0.9 million, primarily reflecting 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.

(c) Allocation of Supporting Services Expenses

Over the past several years The American National Red Cross has worked to provide a greater level of standardization and oversight, and has centralized certain support functions to make more local resources available to serve the mission. During the year ended June 30, 2016, The American National Red Cross continued standardizing its methodology for allocating supporting services to each regional grouping in relation to the region's operating expenses net of national disaster relief and humanitarian services expenses. Accordingly, amounts presented in the accompanying Schedule may not be comparable to amounts presented in prior years.