THE AMERICAN NATIONAL RED CROSS

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

June 30, 2018

(With Independent Auditors' Report Thereon)

THE AMERICAN NATIONAL RED CROSS

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for the Tennessee Region

June 30, 2018

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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, 2018, 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, 2018, and the changes in their net assets, their functional expenses and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Report on Summarized Comparative Information

We have previously audited The American National Red Cross 2017 consolidated financial statements, and expressed an unmodified audit opinion on those consolidated financial statements in our report dated October 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 of operating revenues and expenses and notes to 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 24, 2018, except for the supplemental
information included in the Schedule, which is
as of December 21, 2018

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Financial Position

June 30, 2018
(with comparative information as of June 30, 2017)

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	129,488	122,115
Investments (Note 4)		645,064	291,923
Trade receivables, including grants, net of allowance for doubtful accounts of $1,564 in 2018 and $2,284 in 2017 (Note 11)		204,631	196,593
Contributions receivable (Note 2)		40,150	69,511
Inventories, net of allowance for obsolescence of $141 in 2018 and $154 in 2017		38,826	40,708
Other current assets		58,799	37,658
Total current assets		1,116,958	758,508
Noncurrent assets:			
Investments (Note 4)		1,022,435	1,238,862
Contributions receivable (Note 2)		9,170	17,135
Land, buildings, and other property, net (Note 3)		828,445	844,567
Assets held for sale, net (Note 3)		12,081	26,078
Other assets (Note 9)		251,158	257,430
Total noncurrent assets		2,123,289	2,384,072
Total assets	$	3,240,247	3,142,580
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	286,654	237,508
Current portion of debt (Note 5)		40,452	138,745
Postretirement benefits (Note 10)		3,730	3,723
Other current liabilities (Note 9 and 11)		136,924	149,155
Total current liabilities		467,760	529,131
Noncurrent liabilities:			
Debt (Note 5)		571,260	506,867
Pension and postretirement benefits (Note 10)		492,884	779,975
Other liabilities (Notes 5 and 9)		126,191	130,684
Total noncurrent liabilities		1,190,335	1,417,526
Total liabilities		1,658,095	1,946,657
Net assets (Notes 7 and 8):			
Unrestricted cash available for operations, net investment in land, buildings and other property, and other net assets		1,090,755	1,102,256
Pension and postretirement benefits and other long term liabilities		(1,137,205)	(1,352,041)
Total Unrestricted net assets (deficit)		(46,450)	(249,785)
Temporarily restricted net assets		768,545	608,304
Permanently restricted net assets		860,057	837,404
Total net assets		1,582,152	1,195,923
Commitments and contingencies (Notes 4, 5, 6, 10, 11)			
Total liabilities and net assets	$	3,240,247	3,142,580

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2018
(with summarized information for the year ended June 30, 2017)

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Totals 2018	Totals 2017
Operating revenues and gains:					
Contributions:					
Corporate, foundation and individual giving	$ 197,728	1,039,360	74	1,237,162	422,716
United Way and other federated	10,363	40,049	—	50,412	55,455
Legacies and bequests	58,020	17,613	21,433	97,066	114,624
Services and materials	60,413	51,267	—	111,680	67,930
Products and services:					
Biomedical	1,714,669	—	—	1,714,669	1,712,031
Program materials	134,666	—	—	134,666	133,517
Contracts, including federal government	68,412	—	—	68,412	74,578
Investment income (Note 4)	49,667	142,118	—	191,785	39,958
Other revenues	60,019	—	—	60,019	93,380
Net assets released from restrictions	1,022,702	(1,022,702)	—	—	—
Total operating revenues and gains	3,376,659	267,705	21,507	3,665,871	2,714,189
Operating expenses:					
Program services:					
Services to the Armed Forces	69,319	—	—	69,319	69,335
Biomedical Services	1,806,665	—	—	1,806,665	1,831,520
Community Services	22,416	—	—	22,416	25,367
Domestic Disaster Services	766,800	—	—	766,800	372,139
Health and Safety Services	135,998	—	—	135,998	139,303
International Relief and Development Services	87,507	—	—	87,507	99,760
Total program services	2,888,705	—	—	2,888,705	2,537,424
Supporting services:					
Fund raising	198,541	—	—	198,541	189,623
Management and general	113,608	—	—	113,608	119,736
Total supporting services	312,149	—	—	312,149	309,359
Total operating expenses	3,200,854	—	—	3,200,854	2,846,783
Change in net assets from operations	175,805	267,705	21,507	465,017	(132,594)
Nonoperating investment gains (losses) (Note 4)	(34,531)	(107,464)	1,146	(140,849)	82,241
Pension-related gains other than net periodic benefit cost (Note 10)	62,061	—	—	62,061	260,603
Change in net assets	203,335	160,241	22,653	386,229	210,250
Net assets, beginning of year	(249,785)	608,304	837,404	1,195,923	985,673
Net assets, end of year	$ (46,450)	768,545	860,057	1,582,152	1,195,923

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Functional Expenses

Year ended June 30, 2018
(with summarized information for the year ended June 30, 2017)

(In thousands)

		Program services						
		Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Health and Safety Services	International Relief & Development Services	Total Program Services
Salaries and wages	$	28,145	777,802	10,700	104,346	50,389	16,792	988,174
Employee benefits		6,407	181,615	2,561	25,037	8,740	5,232	229,592
Subtotal		34,552	959,417	13,261	129,383	59,129	22,024	1,217,766
Travel and maintenance		3,176	28,714	199	48,184	5,295	3,079	88,647
Equipment maintenance and rental		1,303	58,206	907	15,824	2,417	1,100	79,757
Supplies and materials		1,964	316,641	844	4,694	11,426	489	336,058
Contractual services		10,024	403,999	3,064	79,442	52,677	7,221	556,427
Financial and material assistance		16,953	2,387	3,670	479,931	477	53,207	556,625
Depreciation and amortization		1,347	37,301	471	9,342	4,577	387	53,425
Total expenses	$	69,319	1,806,665	22,416	766,800	135,998	87,507	2,888,705

		Supporting services			Total expenses	
		Fund raising	Management and general	Total supporting services	2018	2017
Salaries and wages	$	81,869	51,036	132,905	1,121,079	1,091,662
Employee benefits		21,141	10,548	31,689	261,281	442,673
Subtotal		103,010	61,584	164,594	1,382,360	1,534,335
Travel and maintenance		5,974	3,474	9,448	98,095	73,842
Equipment maintenance and rental		3,098	5,216	8,314	88,071	66,682
Supplies and materials		3,642	1,060	4,702	340,760	424,472
Contractual services		77,296	35,313	112,609	669,036	485,831
Financial and material assistance		486	636	1,122	557,747	198,859
Depreciation and amortization		5,035	6,325	11,360	64,785	62,762
Total expenses	$	198,541	113,608	312,149	3,200,854	2,846,783

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	386,229	210,250
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		64,785	62,762
Provision for doubtful accounts receivable		(1,539)	(214)
Provision for obsolete inventories		(13)	(679)
Net gain on sales of property		(13,534)	(59,825)
Net investments and derivatives gains		(52,999)	(65,242)
Pension and postretirement related gains other than net periodic benefit costs		(62,061)	(260,603)
Permanently restricted contributions		(23,501)	(27,392)
Changes in operating assets and liabilities:			
Receivables		30,827	(10,803)
Inventories		1,895	(1,850)
Other assets		(14,869)	(16,211)
Accounts payable and accrued expenses		49,146	(14,229)
Other liabilities		(18,370)	(11,539)
Pension and postretirement benefits		(225,023)	(62,521)
Net cash provided by (used in) operating activities		120,973	(258,096)
Cash flows from investing activities:			
Purchases of property		(72,737)	(48,394)
Proceeds from sales of property		8,839	4,850
Proceeds from properties held for sale		42,766	99,792
Purchases of investments		(420,605)	(166,377)
Proceeds from sales of investments		338,536	336,941
Net cash (used in) provided by investing activities		(103,201)	226,812
Cash flows from financing activities:			
Permanently restricted contributions		23,501	27,392
Proceeds from borrowings		104,845	100,000
Repayments of debt		(138,745)	(57,337)
Net cash (used in) provided by financing activities		(10,399)	70,055
Net increase in cash and cash equivalents		7,373	38,771
Cash and cash equivalents, beginning of year		122,115	83,344
Cash and cash equivalents, end of year	$	129,488	122,115
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$	29,695	23,482

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 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, 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, 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.

(Continued)

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, 2017 from which the summarized information was derived.

(a) 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.

(b) 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 $121 million and $114 million as of June 30, 2018 and 2017, respectively.

(c) 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, 2018. 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 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.

(d) 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.

(e) 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 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.

(f) 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.

(g) 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

(Continued)

(h) 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.

(i) 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 $88 million and $83 million as of June 30, 2018 and 2017, respectively.

(j) 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 for time or purpose.

The Organization reports contributions in the temporarily or permanently 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, 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.

(Continued)

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.

(k) 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 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, 2018 includes the services of approximately 13,905 volunteers. The Organization recorded contributed services revenue and related expense of approximately $53 million. The $53 million and $40 million recorded in 2018 and 2017, 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.

(l) 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, 2018 and 2017, 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.

(m) Accounts Receivable Securitization

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

(n) Upcoming Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for the Organization on July 1, 2018. The Organization is still evaluating the final effect that ASU 2014-09 will have on its consolidated financial statements and disclosures; however, management does not expect the adoption of the standard to have a material impact.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.* ASU 2016-14 reduces the number of net asset classes presented from three to two, requires presentation of expenses by functional and natural classification in one location, and requires quantitative disclosures about liquidity and availability of financial assets. ASU 2016-14 is effective for the Organization's financial statements for the year ended June 30, 2019, and the ASU should be applied on a retrospective basis in the year that it is first applied. The Organization is still evaluating the final effect that ASU 2016-14 will have on its consolidated financial statements and disclosures; however, management does not expect the adoption of the standard to have a material impact.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases, including operating leases, with a term greater than 12 months. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet, 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. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for the Organization for the year ended June 30, 2020. The Organization is currently in the process of evaluating the impact of the new standard on its consolidated financial statements.

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2018 and 2017 (in thousands):

		2018	2017
Amounts receivable within one year	$	42,065	72,246
Amounts receivable in 1 to 5 years (net of discount of $1,294 and $1,073 for 2018 and 2017, respectively)		9,170	17,135
Total contributions receivable before allowance for uncollectible amounts		51,235	89,381
Less allowance for uncollectible amounts		(1,915)	(2,735)
Contributions receivable, net		49,320	86,646
Less current portion		40,150	69,511
Contributions receivable, net, noncurrent	$	9,170	17,135

Amounts presented above have been discounted to present value using various discount rates ranging between 0.67% and 3.0%.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2018 and 2017 (in thousands):

		2018	2017
Land	$	100,481	103,852
Buildings and improvements		1,051,349	1,065,217
Equipment and software		546,508	555,603
Total cost of assets placed in service		1,698,338	1,724,672
Less accumulated depreciation and amortization		(878,157)	(882,338)
Construction-in-progress		8,264	2,233
Land, buildings, and other property, net	$	828,445	844,567

Assets held for sale were as follows at June 30, 2018 and 2017 (in thousands):

		2018	2017
Land	$	4,451	8,482
Buildings and improvements		21,299	36,145
Total cost of assets held for sale		25,750	44,627
Less accumulated depreciation and amortization		(13,669)	(18,549)
Assets held for sale, net	$	12,081	26,078

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 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, 2018, the gain on the buildings and improvements assets held for sale was approximately $24 million, which is included in other revenue on consolidated statement of activities.

(Continued)

(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, 2018 and 2017, 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 (CTS). This investment is accounted for using the equity method, and is reflected in long term investments on the Organization's consolidated statement of financial position. The balance at June 30, 2018 reflects the original contribution as well as the Organization's share of the earnings of the investee, which were approximately $6 million for the period ended June 30, 2018.

The following table represents investments that are measured at fair value on a recurring basis and other investments at June 30, 2018 (in thousands):

	June 30, 2018	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed income commingled funds	$ 167,330	—	167,330	—	—
Equity commingled funds	163,478	—	163,478	—	—
Hedge funds	432,824	—	—	—	432,824
Private equity and debt	90,655	—	—	—	90,655
Real estate and real assets	9,656	—	—	—	9,656
Cash and cash equivalents	750,554	2,731	747,823	—	—
Investments stated at fair value	1,614,497	2,731	1,078,631	—	533,135
Equity-method investments	53,002				
Total investments	$ 1,667,499				

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2017 (in thousands):

	June 30, 2017	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed income commingled funds	$ 190,970	—	190,970	—	—
Equity commingled funds	195,223	—	195,223	—	—
Hedge funds	435,784	—	—	87	435,697
Private equity and debt	182,409	—	—	4,160	178,249
Real estate and real assets	24,451	—	—	—	24,451
Derivative contracts	19,601	—	19,601	—	—
Cash and cash equivalents	482,347	6,025	476,322	—	—
Total investments	$ 1,530,785	6,025	882,116	4,247	638,397

(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, 2018 and 2017.

For the valuation of certain cash equivalents, U.S. government and sovereign securities, and fixed income and equity commingled funds at June 30, 2018 and 2017, 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, real estate and real assets funds, at June 30, 2018 and 2017, 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) for the years ended June 30, 2018 and 2017 (in thousands):

	Balance as of June 30, 2017	Purchases	Settlements	Change in unrealized gains/ (losses)	Balance as of June 30, 2018
Hedge funds	$ 87	—	(86)	(1)	—
Private equity and debt	4,160	—	(2,777)	(1,383)	—
Total investments	$ 4,247	—	(2,863)	(1,384)	—

	Balance as of June 30, 2016	Purchases	Settlements	Change in unrealized gains/ (losses)	Balance as of June 30, 2017
Hedge funds	$ 104	—	(1,749)	1,732	87
Private equity and debt	4,918	—	(651)	(107)	4,160
Real estate and real assets	11,493	29	(18,543)	7,021	—
Total investments	$ 16,515	29	(20,943)	8,646	4,247

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, 2018 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (a),(c)	$	1,789	—	N/A	fully redeemed
Hedge funds (a)		431,035	—	monthly to bi-annually*	5-90 days
Private equity and debt (b)		90,655	106,314	None	—
Real estate and real assets (b)		9,656	200	None	—
Total	$	533,135	106,514		

* bi-annually defined as every two years

(a) Hedge Fund Investments. Hedge fund strategies include: relative value, event driven, and arbitrage 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.

(b) 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. Non-marketable 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 non-marketable investments will be liquidated over the next ten years.

(c) 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.

The Organization transacts in a variety of derivative instruments, including swaps and options, for investment and hedging purposes, in order to create or mitigate certain exposures. Each instrument’s primary underlying exposure is equities, commodities, interest rates, or currencies. Such contracts involve, to varying degrees, risks 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 Organization also invests in highly liquid, exchange-traded contracts to achieve exposure to U.S. Treasury securities; these contracts are also marked-to-market daily, with daily exchanges of variation margin, but do not require collateralization per se. Foreign exchange derivatives can be used to facilitate trade purchases and sales as well as for hedging purposes.

(Continued)

The following table lists the notional/contractual amount of derivatives by contract type included in investments at June 30, 2018 and 2017 (in thousands):

Derivative type		2018	2017
Equity contracts	$	54,386	158,748

The following table lists fair value of derivatives by contract type included in investments as of June 30, 2018 and 2017 (in thousands):

		Derivative assets	
Derivative type		2018	2017
Equity contracts	$	—	19,601
Fair value of derivatives included in investments	$	—	19,601

The following table lists gains and losses on derivatives by contract type included in investment income as of June 30, 2018 and 2017 (in thousands):

		Realized gains		Change in unrealized gains/(losses)	
Derivative type		2018	2017	2018	2017
Equity contracts	$	11,975	10,217	(1,928)	3,256
Total	$	11,975	10,217	(1,928)	3,256

For the valuation of the Organization's derivative contracts at June 30, 2018, 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, 2018. 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, 2018 and 2017 (in thousands):

	2018				2017
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Dividends and interest	$ 6,732	1,000	—	7,732	9,074
Net investment gains (losses)	8,404	33,654	1,146	43,204	113,125
Total return on investments	15,136	34,654	1,146	50,936	122,199
Less Investment income available for operations:					
Endowment distribution for the Retirement System	—	105,000	—	105,000	—
Other investment (gains) losses	49,667	37,118	—	86,785	39,958
	49,667	142,118	—	191,785	39,958
Net nonoperating investment gains (losses)	(34,531)	(107,464)	1,146	(140,849)	82,241

(5) Debt

Debt consists of the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Fixed rate debt:		
Bearing interest rates ranging from 0% to 5.85%, due calendar year 2018 through 2044	$ 441,952	473,217
Variable rate debt:		
Bearing interest rates ranging from 0.80% to 2.75%, due calendar year 2018 through 2034:		
Variable rate debt with demand repayment rights	54,760	57,395
Variable rate debt without demand repayment rights	115,000	115,000
Total bonds and notes payable	611,712	645,612
Less current portion	40,452	138,745
Debt, noncurrent portion	$ 571,260	506,867

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 $11 million for both fiscal years 2018 and 2017, respectively, to provide liquidity in the event other funding is not available for repurchasing. As of June 30, 2018, the maturity dates for these liquidity facilities are in calendar year 2019. 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, 2018.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2018 are as follows (in thousands):

2019	$	38,635
2020		38,735
2021		38,735
2022		43,835
2023		88,935
Thereafter		357,985
	$	606,860

Interest expense was approximately $30 million for both years ended June 30, 2018 and 2017, 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. As of June 30, 2018, there were no borrowings outstanding under lines of credit and there were $100 million borrowings outstanding under lines of credit as of June 30, 2017. The Organization had unused lines of credit outstanding of approximately $275 million at both June 30, 2018 and June 30, 2017. 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 $170 million and $172 million at June 30, 2018 and 2017, 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, 2018, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2018 through 2025, totaled $60 million. At June 30, 2017, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2017 through 2021, totaled $62 million. The estimated fair value of the interest rate swap agreements was a liability of approximately $1.3 million and $2.9 million, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position as of June 30, 2018 and 2017.

The change in fair value on these interest rate swap agreements was a gain of approximately $1.6 million and $2.8 million for the years ended June 30, 2018 and 2017, respectively, and is included in nonoperating gains in the consolidated statements of activities.

For the valuation of the interest rate swaps at June 30, 2018 and 2017, 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, 2018 and 2017.

(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):

2019	$	26,605
2020		21,317
2021		17,961
2022		15,048
2023		11,498
Thereafter		67,438
Total minimum lease payments	$	159,867

Total rent expense was approximately $46 million and $45 million for the years ended June 30, 2018 and 2017, 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, 2018, are as follows (in thousands):

2019	$	18,955
2020		19,124
Total minimum lease payments to be received	$	38,079

The rental income was approximately $19 million and $16 million for the years ended June 30, 2018, and 2017, respectively, and is included in other revenues on the consolidated statement of activities.

(7) Net Assets

Unrestricted net assets (deficit) are comprised of the following at June 30, 2018 and 2017 (in thousands):

		2018	2017
Unrestricted net assets (deficit)	$	(46,450)	(249,785)
Add back (deduct) long term assets and liabilities:			
Pension and postretirement liabilities		496,614	783,698
Other long-term liabilities		640,591	568,343
Net investment in land, buildings and other property		(771,585)	(775,359)
Unrestricted net assets available for operations	$	319,170	326,897

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 as of June 30, 2018 and 2017 (in thousands):

		2018	2017
Disaster services	$	320,498	9,562
International relief and development services		80,621	118,325
Buildings and equipment		4,978	5,289
Endowment inflation adjustment reserve		238,855	218,235
Endowment assets available for future appropriation		46,651	170,180
Other specific purposes		9,278	11,926
Time restricted		67,664	74,787
Total temporarily restricted net assets	$	768,545	608,304

Permanently restricted net assets at June 30, 2018 and 2017 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 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 one-time annual spending rate of 15% has been approved for year 2018, which resulted in total distributions of approximately $141 million. For 2017, the spending rate was 3.8%, which resulted in total distributions of approximately $37 million. The distributions for both years represent utilization of accumulated realized gains, which were calculated based on the trailing five-year market value. Consistent with 2017, a spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2019.

Net asset classification by type of endowment as of June 30, 2018, is as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	285,506	682,846	968,352

Changes in endowment net assets for the year ended June 30, 2018 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ —	388,415	659,345	1,047,760
Total investment return	—	38,352	—	38,352
Contributions	—	—	23,501	23,501
Appropriation of endowment assets for expenditure:				
Endowment distribution for the Retirement System	—	(105,000)	—	(105,000)
Other Endowment distribution	—	(36,261)	—	(36,261)
Total appropriation of endowment assets for expenditure	—	(141,261)	—	(141,261)
Endowment net assets, end of year	$ —	285,506	682,846	968,352

(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 $248 million and $255 million in assets under these agreements as of June 30, 2018 and 2017, respectively, which are included in other assets on the consolidated statement of financial position, $37 million and $39 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 $28 million and $29 million for the years ended June 30, 2018 and 2017, respectively, of which $4 million for both years is included in other current liabilities and $24 million and $25 million is included in other noncurrent liabilities on the consolidated statement of financial position, respectively.

(10) Benefit Plans

(a) The Retirement System of the American National Red Cross and The American Red Cross Life and Health Benefit 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. 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 2018, the Organization contributed above the required amount for the Plan Year.

The Organization offered a lump sum special election window from September 1 through October 14, 2016. This option was made available to former employees who terminated their employment prior to July 1, 2016, were vested in the Plan, and were not receiving monthly payments. The special election window provided the participants the option to cash out their retirement benefit or take an immediate annuity, which was actuarially reduced for early commencement. Special election window payments totaling approximately $106 million were made upon submission of election forms starting in November 2016.

The American Red Cross purchased annuities, totaling approximately $327.5 million effective June 18, 2017, for certain retirees. Those retirees, who as of July 1, 2016, have been receiving monthly pension payments of $500 or less, are included in such annuity purchase.

The Organization also provides medical and dental benefits to eligible 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 (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 Plan was amended 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. Those with earliest annuity starting dates on or after January 1, 2019, or retirement eligible participants on or after January 1, 2019 are eligible for uncapped lump sum option. In addition, all previously available distribution options continue to be available.

(Continued)

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, 2018 and 2017 (in thousands):

	Pension benefits		Postretirement benefits	
	2018	**2017**	**2018**	**2017**
Changes in benefit obligations:				
Benefit obligations at beginning of year	$ 2,487,441	3,013,553	63,598	67,473
Service cost	518	805	89	133
Interest cost	102,595	123,709	2,283	2,296
Plan amendment	(23,788)	—	—	—
Actuarial gain	(109,674)	(85,239)	(4,982)	(2,985)
Benefits paid	(120,586)	(119,482)	(3,391)	(3,319)
Annuity purchase and reimbursements from insurance carriers	13,599	—	—	—
Settlements	—	(445,905)	—	—
Benefit obligations at end of year	2,350,105	2,487,441	57,597	63,598
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,767,341	1,979,397	—	—
Actual return on plan assets	29,784	103,331	—	—
Employer contributions	220,950	250,000	—	—
Benefits paid	(120,586)	(119,482)	—	—
Annuity purchase and reimbursements from insurance carriers	13,599	—	—	—
Settlements	—	(445,905)	—	—
Fair value of plan assets at end of year	1,911,088	1,767,341	—	—
Funded status-accrued benefit costs	$ (439,017)	(720,100)	(57,597)	(63,598)

Pension-related changes other than net periodic benefit cost for 2018:

		Pension benefits	Postretirement benefits	Total
Prior service cost (benefit)	$	23,788	(1,179)	22,609
Amortized net loss (gain)		20,899	(980)	19,919
Net actuarial gain		11,373	8,160	19,533
	$	56,060	6,001	62,061

Pension-related changes other than net periodic benefit cost for 2017:

		Pension benefits	Postretirement benefits	Total
Prior service benefit	$	—	(1,180)	(1,180)
Amortized net loss (gain)		199,265	(106)	199,159
Net actuarial gain		57,463	5,161	62,624
	$	256,728	3,875	260,603

Items not yet recognized as a component of net periodic benefit cost for 2018:

		Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	$	(23,788)	(230)	(24,018)
Unrecognized net actuarial loss (gains)		913,646	(14,027)	899,619
	$	889,858	(14,257)	875,601

Items not yet recognized as a component of net periodic benefit cost for 2017:

		Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	$	—	(1,408)	(1,408)
Unrecognized net actuarial loss (gains)		945,918	(10,026)	935,892
	$	945,918	(11,434)	934,484

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 credit	$	(2,727)	(230)	(2,957)
Net actuarial loss (gain)		18,797	(2,284)	16,513
	$	16,070	(2,514)	13,556

The accumulated benefit obligation for the pension plan was approximately $2.3 billion and $2.5 billion as of June 30, 2018 and 2017, respectively.

The weighted average assumptions used to determine benefit obligations for 2018 and 2017 were as follows:

	Pension benefits		Postretirement benefits	
	2018	2017	2018	2017
Discount rate	4.49%	4.22%	4.20%	3.70%
Rate of compensation increase	5.00	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2018 and 2017 were as follows:

	Pension benefits		Postretirement benefits	
	2018	2017	2018	2017
Discount rate	4.22%	4.20%	3.70%	3.50%
Expected return on plan assets	6.00	6.50	—	—
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 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2018. The rate was assumed to decrease gradually to 4.5% through 2030 and remain at that level thereafter. A 7.3% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2017. The rate was assumed to decrease gradually to 5% through 2025 and remain at that level thereafter.

The components of net periodic benefit cost (credit) for the years ended June 30, 2018 and 2017 were as follows (in thousands):

		Pension benefits		**Postretirement benefits**	
		2018	**2017**	**2018**	**2017**
Service cost	$	518	805	89	133
Interest cost		102,595	123,709	2,283	2,296
Expected return on plan assets		(128,085)	(131,108)	—	—
Amortization of prior service credit		—	—	(1,180)	(1,180)
Net amortization loss (gain)		20,899	29,701	(980)	(106)
Net periodic benefit cost (credit)	$	(4,073)	23,107	212	1,143

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	$	4	(4)
Effect on postretirement benefit obligation		72	(64)

The minimum funding requirement for the pension plan during the year ending June 30, 2018 is $60 million.

(Continued)

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
2019	$	140,337	3,809
2020		133,150	3,841
2021		135,225	3,867
2022		137,208	3,907
2023		139,270	3,920
2024–2028		710,262	19,126
	$	1,395,452	38,470

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 such that no single investment would 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 investment goals for 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 flow 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, 2018 and 2017:

	Pension assets	
	2018	2017
Cash and short-term investments	6%	5%
Equity	32	37
Fixed income	39	23
Marketable and nonmarketable alternative funds	23	35
	100%	100%

The Plan assets were within authorized asset allocation ranges at June 30, 2018 and 2017.

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2018 (in thousands):

	June 30, 2018	Level 1	Level 2	Level 3	Measured at NAV(1)
Equity commingled funds	$ 273,249	—	273,249	—	—
Hedge funds	456,385	—	—	—	456,385
Private equity and debt	113,625	—	—	—	113,625
Real estate and real assets	19,217	—	—	—	19,217
US government and sovereign securities	691,480		691,480	—	—
Derivative contracts	7,420	7,684	(264)	—	—
Cash and cash equivalents	349,711	—	349,711	—	—
Total Plan Assets	$ 1,911,087	7,684	1,314,176	—	589,227

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2017 (in thousands):

	June 30, 2017	Level 1	Level 2	Level 3	Measured at NAV(1)
Fixed income commingled funds	$ 286,031	—	286,031	—	—
Equity commingled funds	303,162	—	303,162	—	—
Hedge funds	478,991	—	—	3	478,988
Private equity and debt	224,614	—	—	5,299	219,315
Real estate and real assets	57,445	—	—	—	57,445
Equity interest in participating annuity surplus	86,758	—	—	86,758	—
Guaranteed accumulation fund	34,205	—	—	34,205	—
Derivative contracts	22,029	1,801	20,228	—	—
Cash and cash equivalents	274,106	55,163	218,943	—	—
Total Plan Assets	$ 1,767,341	56,964	828,364	126,265	755,748

(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 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, 2018 and 2017 (in thousands):

		Balance as of June 30, 2017	Purchases	Settlements	Change in unrealized gains/ (losses)	Balance as of June 30, 2018
Hedge funds	$	3	—	—	(3)	—
Private equity and debt		5,299	—	(3,888)	(1,411)	—
Equity interest in participating annuity surplus		86,758	1,694	(78,490)	(9,962)	—
Guaranteed accumulation fund		34,205	168	(45,673)	11,300	—
Total Plan assets	$	126,265	1,862	(128,051)	(76)	—

		Balance as of June 30, 2016	Purchases	Settlements	Change in unrealized gains/ (losses)	Balance as of June 30, 2017
Hedge funds	$	24	—	(2,489)	2,468	3
Private equity and debt		5,905	—	(766)	160	5,299
Real estate and real assets		10,391	38	(17,555)	7,126	—
Equity interest in participating annuity surplus		60,376	23,921	(7,502)	9,963	86,758
Guaranteed accumulation fund		38,307	571	(4,599)	(74)	34,205
Total Plan assets	$	115,003	24,530	(32,911)	19,643	126,265

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 for a portion 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 first part of the fiscal year ended June 30, 2018, the Plan used interest rate futures to manage interest rate 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 following table lists the notional/contractual amount of derivatives by contract type included in pension plan assets at June 30, 2018 and 2017 (in thousands):

Derivative type		2018	2017
Interest rate contracts	$	347,240	302,161
Equity contracts		167,592	230,037

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2018 and 2017 (in thousands):

		Derivative assets		Derivative liabilities	
Derivative type		**2018**	**2017**	**2018**	**2017**
Interest rate contracts	$	7,684	1,801	—	—
Equity contracts		—	20,274	264	46
Fair value of derivatives included in investments	$	7,684	22,075	264	46

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, 2018 and 2017 (in thousands):

		Realized gains/(losses)		Change in unrealized gains/(losses)	
Derivative type		**2018**	**2017**	**2018**	**2017**
Interest rate contracts	$	(12,237)	12,208	5,883	(26,871)
Equity contracts		18,573	11,452	(2,066)	3,131
Total	$	6,336	23,660	3,817	(23,740)

For the valuation of the Plan's derivative contracts at June 30, 2018, 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.

(Continued)

(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 $33.7 million and $32.5 million in Red Cross employer contributions to the Savings Plan in 2018 and 2017, 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, 2018 and 2017 and the total cost of the program approximates the 30 day Libor plus 1%. At June 30, 2018 and 2017, the amount of outstanding borrowings under the securitization program was $109 million and $113 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 24, 2018.

Schedule

THE AMERICAN NATIONAL RED CROSS

Schedule of Operating Revenues and Expenses for the Tennessee Region

Year ended June 30, 2018

Operating revenues:		
Contributions:		
Corporate, foundation and individual giving	$	6,257,094
United Way and other federated		1,484,191
Legacies and bequests		256,202
Services and materials		1,844,468
Products and services		1,670,895
Contracts, including federal government		930,797
Investment income		50,835
Support from American National Red Cross chapter network		944,266
Total operating revenues		13,438,748
Operating expenses:		
Program services:		
Services to the Armed Forces		1,824,774
Biomedical services		22,436
Domestic disaster services		6,850,363
Health and safety services		1,825,545
International relief and development services		4,797
Total program services		10,527,915
Supporting services:		
Fundraising		2,280,556
Management and general		630,277
Total supporting services		2,910,833
Total operating expenses		13,438,748
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 264 chartered local chapters organized in 60 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. Contributions exclude $11,109,000 raised by the region for use in disaster response and recovery needs of victims affected by Hurricane Harvey, Hurricane Irma, Hurricane Maria, and the California Wildfires.

Program activities for regional operations include services to the Armed Forces, domestic disaster services related to locally managed responses and the region's share of national domestic disaster infrastructure costs, activities in support of biomedical services, health and safety services, community services, and activities in support of international relief and development services. Domestic disaster relief activities on this Schedule do not include incremental costs of national disaster response activities. The Schedule does not reflect the full operations of biomedical services or international relief and development services, but rather the 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 Organization 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 is a support function to ensure that each community has the necessary funds to support the Organization's 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 the 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 of operating revenues and expenses reported on the Schedule is reported in total and does 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 300,000 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 243 volunteers. The region recorded contributed services revenue and related expense of $674,000, primarily reflecting volunteer efforts in support of disaster services and services to the Armed Forces. Contributed services and related expenses reported exclude $381,000 related to disaster response and recovery needs of victims affected by Hurricane Harvey, Hurricane Irma, Hurricane Maria, and the California Wildfires.

Contributed materials are recorded at their fair value at the date of the gift.