THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2019
(With summarized information for the year ended June 30, 2018)

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Auditors' Report

The Board of Governors
The American National Red Cross:

We have audited the accompanying consolidated financial statements of The American National Red Cross (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The American National Red Cross as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(q) to the consolidated financial statements, in 2019 The American National Red Cross adopted new accounting guidance, Accounting Standards Update (ASU) No. 2016-14, *Not for Profit Entities (Topic 958) – Presentation of Financial Statements for Not for Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08, *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The American National Red Cross' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU No. 2016-14 . As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in note 1(q) that were applied to adopt ASU No. 2016-14 retrospectively in the 2018 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

McLean, Virginia
October 23, 2019

THE AMERICAN NATIONAL RED CROSS
Consolidated Statement of Financial Position
June 30, 2019
(With comparative information as of June 30, 2018)

(In thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	101,101	129,488
Investments (note 4)		460,187	645,064
Trade receivables, including grants, net of allowance for doubtful accounts of $2,364 in 2019 and $1,564 in 2018 (note 11)		196,172	204,631
Contributions receivable (note 2)		31,948	40,150
Inventories, net of allowance for obsolescence of $178 in 2019 and $141 in 2018		38,800	38,826
Other current assets		49,516	58,799
Total current assets		877,724	1,116,958
Noncurrent assets:			
Investments (note 4)		1,067,866	1,022,435
Contributions receivable (note 2)		14,689	9,170
Land, buildings, and other property, net (note 3)		798,466	828,445
Assets held for sale, net (note 3)		35,740	12,081
Other assets (note 9)		255,419	251,158
Total noncurrent assets		2,172,180	2,123,289
Total assets	$	3,049,904	3,240,247
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	272,134	286,654
Current portion of debt (note 5)		43,888	40,452
Postretirement benefits (note 10)		3,824	3,730
Other current liabilities (notes 9 and 11)		133,210	136,924
Total current liabilities		453,056	467,760
Noncurrent liabilities:			
Debt (note 5)		537,413	571,260
Pension and postretirement benefits (note 10)		495,161	492,884
Other liabilities (notes 5 and 9)		122,110	126,191
Total noncurrent liabilities		1,154,684	1,190,335
Total liabilities		1,607,740	1,658,095
Net assets (notes 7 and 8):			
Without donor restrictions net assets (deficit)		(5,469)	(46,450)
With donor restrictions net assets		1,447,633	1,628,602
Total net assets		1,442,164	1,582,152
Commitments and contingencies (notes 4, 5, 6, 10, 11)			
Total liabilities and net assets	$	3,049,904	3,240,247

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Activities

Year ended June 30, 2019
(With summarized information for the year ended June 30, 2018)

(In thousands)

	Without donor restrictions	With donor restrictions	Totals 2019	Totals 2018
Operating revenues and gains:				
Contributions:				
Corporate, foundation and individual giving	$ 188,396	411,130	599,526	1,237,162
United Way and other federated	9,153	32,387	41,540	50,412
Contracts, including federal government	1,822	49,770	51,592	58,551
Legacies and bequests	65,988	32,211	98,199	97,066
Services and materials	28,132	41,911	70,043	111,680
Products and services:				
Biomedical Services	1,741,302	—	1,741,302	1,714,669
Program materials	142,379	—	142,379	134,666
Investment return, net (note 4)	15,147	38,088	53,235	191,785
Other revenues	70,601	374	70,975	69,880
Net assets released from restrictions	811,845	(811,845)	—	—
Total operating revenues and gains	3,074,765	(205,974)	2,868,791	3,665,871
Operating expenses:				
Program services:				
Services to the Armed Forces	73,838	—	73,838	69,319
Biomedical Services	1,740,715	—	1,740,715	1,806,665
Community Services	24,672	—	24,672	22,416
Domestic Disaster Services	667,355	—	667,355	766,800
Training Services	144,066	—	144,066	135,998
International Relief and Development Services	61,304	—	61,304	87,507
Total program services	2,711,950	—	2,711,950	2,888,705
Supporting services:				
Fundraising	177,041	—	177,041	198,541
Management and general	103,527	—	103,527	113,608
Total supporting services	280,568	—	280,568	312,149
Total operating expenses	2,992,518	—	2,992,518	3,200,854
Change in net assets from operations	82,247	(205,974)	(123,727)	465,017
Nonoperating investment return, net (note 4)	(4,280)	25,005	20,725	(140,849)
Pension-related changes other than net periodic Benefit cost (note 10)	(36,986)	—	(36,986)	62,061
Change in net assets	40,981	(180,969)	(139,988)	386,229
Net assets, beginning of year	(46,450)	1,628,602	1,582,152	1,195,923
Net assets, end of year	$ (5,469)	1,447,633	1,442,164	1,582,152

See accompanying notes to consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Functional Expenses

Year ended June 30, 2019
(With summarized information for the year ended June 30, 2018)

(In thousands)

	Program services						
	Service to Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Training Services	International Relief and Development Services	Total program services
Salaries and wages	$ 30,702	745,519	11,235	120,851	50,721	12,897	971,925
Employee benefits	7,253	176,107	2,654	28,547	11,981	3,048	229,590
Subtotal	37,955	921,626	13,889	149,398	62,702	15,945	1,201,515
Travel and maintenance	3,035	28,752	195	35,497	5,904	2,849	76,232
Equipment maintenance and rental	673	44,080	768	14,036	1,388	564	61,509
Supplies and materials	1,389	224,094	854	5,052	12,035	439	243,863
Contractual services	9,322	476,819	4,136	57,866	57,349	4,934	610,426
Financial and material assistance	18,657	2,339	3,461	394,918	913	35,776	456,064
Depreciation and amortization	2,807	43,005	1,369	10,588	3,775	797	62,341
Total expenses	$ 73,838	1,740,715	24,672	667,355	144,066	61,304	2,711,950

	Supporting services			Total expenses	
	Fundraising	Management and general	Total supporting services	2019	2018
Salaries and wages	$ 84,557	45,038	129,595	1,101,520	1,121,079
Employee benefits	19,974	10,639	30,613	260,203	261,281
Subtotal	104,531	55,677	160,208	1,361,723	1,382,360
Travel and maintenance	5,377	2,538	7,915	84,147	98,095
Equipment maintenance and rental	1,769	3,110	4,879	66,388	88,071
Supplies and materials	2,538	835	3,373	247,236	340,760
Contractual services	57,062	36,398	93,460	703,886	669,036
Financial and material assistance	364	340	704	456,768	557,747
Depreciation and amortization	5,400	4,629	10,029	72,370	64,785
Total expenses	$ 177,041	103,527	280,568	2,992,518	3,200,854

See accompanying notes to the consolidated financial statements.

THE AMERICAN NATIONAL RED CROSS

Consolidated Statement of Cash Flows

Year ended June 30, 2019
(With comparative information for the year ended June 30, 2018)

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(139,988)	386,229
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		72,370	64,785
Provision for doubtful accounts receivable		2,095	(1,539)
Provision for obsolete inventories		37	(13)
Net gain on sales of property		(12,655)	(13,534)
Net investment returns and derivatives gains		(39,275)	(52,999)
Pension and postretirement-related changes other than net periodic benefit costs		36,986	(62,061)
Permanently restricted contributions		(19,975)	(23,501)
Changes in operating assets and liabilities:			
Receivables		9,047	30,827
Inventories		(11)	1,895
Other assets		5,022	(14,869)
Accounts payable and accrued expenses		(14,520)	49,146
Other liabilities		(6,239)	(18,370)
Pension and postretirement benefits		(34,615)	(225,023)
Net cash (used in) provided by operating activities		(141,721)	120,973
Cash flows from investing activities:			
Purchases of property		(70,745)	(72,737)
Proceeds from sales of property		11,700	8,839
Proceeds from properties held for sale		18,876	42,766
Purchases of investments		(609,128)	(420,605)
Proceeds from sales of investments		786,293	338,536
Net cash provided by (used in) investing activities		136,996	(103,201)
Cash flows from financing activities:			
Permanently restricted contributions		19,975	23,501
Proceeds from borrowings		—	104,845
Repayments of debt		(43,637)	(138,745)
Net cash used in financing activities		(23,662)	(10,399)
Net (decrease) increase in cash and cash equivalents		(28,387)	7,373
Cash and cash equivalents, beginning of year		129,488	122,115
Cash and cash equivalents, end of year	$	101,101	129,488
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	30,365	29,695

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Presentation

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

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 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 intraorganizational accounts and transactions have been eliminated.

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

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

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

With Donor Restrictions – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

(b) Measure of Operations

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

(c) Summarized comparative information

The consolidated financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2018 from which the summarized information was derived.

(d) Use of Estimates

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

(e) Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and overnight investments of approximately $91 million and $121 million as of June 30, 2019 and 2018, respectively.

(f) Investments

Investments are reported at fair value except for certain alternative investment funds that, as a practical expedient, are reported at estimated fair value utilizing net asset values (NAVs). Net asset value, in some instances may not equal the fair value. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2019. 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.

Investment management fees are netted against investment returns.

(g) Derivative Financial Instruments

The Organization makes use of derivative financial instruments in order to take exposure or mitigate certain risks. Derivative financial instruments are recorded at fair value (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.

(h) Endowment Fund

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

(i) Inventories

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

(j) Land, Buildings, and Other Property

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

Property under 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

(k) Long-Lived Assets

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

(l) Property and Casualty Insurance

The Organization maintains various insurance policies under which it assumes a portion of each insured loss. Assumed losses are retained by the Organization through its wholly owned insurance subsidiary, Boardman Indemnity, Ltd. (Boardman). The Organization also purchases insurance to supplement the coverage by Boardman. The liabilities for outstanding losses and incurred but not reported claims have been determined based on actuarial studies and are reported as other liabilities in the consolidated statement of financial position, and were approximately $76 million and $88 million as of June 30, 2019 and 2018, respectively.

(m) Revenue Recognition

(i) Contribution Revenue

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

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

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

(ii) Revenue from Contracts with Customers

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

(iii) Biomedical Revenues

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

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

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

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

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

(iv) Program Materials Revenue

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

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

(v) Other Revenue

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

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

(n) Contributed Services and Materials

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

The Organization engages more than 300,000 volunteers. A small percentage of these volunteers meet the above criteria and are reported in contributed services. Contributed services for the year ended June 30, 2019 include the services of approximately 13,177 volunteers. The Organization recorded contributed services revenue and related expense of approximately $51 million. The $51 million and $53 million recorded in 2019 and 2018, 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.

(o) 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, 2019 and 2018, 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.

(p) Accounts Receivable Securitization

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

(q) Newly Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Organization adopted this standard on July 1, 2018 using the cumulative catch

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up adjustment method. Due to the short-term nature of the products within the Organization's revenue streams, the adoption of this standard did not have a material impact on the amount and timing of revenue recognition for revenue from Biomedical and Training Services. Other remaining revenue streams not related to the biomedical process including Contributions, Contracts including Federal Government, Investment Income, and Other Revenue are not within the scope of Topic 606 Revenue Recognition. The adoption of this standard did not materially affect consolidated changes in net assets, financial position, or cash flows.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.* ASU No. 2016-14 reduces the number of net asset classes presented from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets of $768 million and permanently restricted net assets of $860 million for fiscal year ended June 30, 2018. Additionally, ASU No. 2016-14 requires presentation of expenses by functional and natural classification in one location and increases the quantitative disclosures about liquidity and availability of financial assets. The Organization adopted ASU No. 2016-14 for Organization's financial statements for the year ended June 30, 2019 and applied the changes retrospectively.

In June 2018, the FASB issued ASU No. 2018-08 – Not-for Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions. This ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU No. 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. Under the new guidance, if a transaction is considered an exchange transaction, it is accounted for under the applicable revenue recognition standards. The Organization adopted this standard prospectively for contributions received for the fiscal year ended June 30, 2019. The adoption of this standard resulted in most grants being accounted for as contributions than were under previous guidance. The Organization does not make significant contributions and the impact of ASU No. 2018-08 related to contributions made is not expected to be material to the consolidated financial statement or disclosures.

(r) Upcoming New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* which supersedes the requirements in ASC Topic 840, *Leases*. ASU No. 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 No. 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 No. 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for the Organization for the year ending June 30, 2020. The Organization is currently in the process of evaluating the impact of the new standard on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* ASU No. 2016-18 provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The ASU is effective for the Organization for

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the year ending June 30, 2020. The Organization is still evaluating the final effect that ASU No. 2016-18 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 March 2017, the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, which include interest cost and prior service cost or credit, among others, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of revenue from operations, if one is presented. The ASU is effective for the Organization for the year ending June 30, 2020. The Organization is still evaluating the final effect that ASU No. 2017-07 will have on its consolidated financial statements and disclosures; however, management does not expect the adoption of the standard to have a material impact.

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2019 and 2018 (in thousands):

		2019	2018
Amounts receivable within one year	$	35,158	42,065
Amounts receivable in 1 to 5 years (net of discount of $1,432 and $1,294 for 2019 and 2018, respectively)		14,689	9,170
Total contributions receivable before allowance for uncollectible amounts		49,847	51,235
Less allowance for uncollectible amounts		(3,210)	(1,915)
Contributions receivable, net		46,637	49,320
Less current portion		31,948	40,150
Contributions receivable, net, noncurrent	$	14,689	9,170

Amounts presented above have been discounted to present value using various discount rates ranging between 0.76% and 3.15%.

As of June 30, 2019, the Organization received conditional grants totaling $54 million. These grants are conditioned on incurring qualifying expenses and will be recognized as revenue in the periods in which the conditions are fulfilled.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2019 and 2018 (in thousands):

		2019	2018
Land	$	88,730	100,481
Buildings and improvements		1,034,271	1,051,349
Equipment and software		557,066	546,508
Total cost of assets placed in service		1,680,067	1,698,338
Less accumulated depreciation and amortization		(903,686)	(878,157)
Construction in progress		22,085	8,264
Land, buildings, and other property, net	$	798,466	828,445

Assets held for sale were as follows at June 30, 2019 and 2018 (in thousands):

		2019	2018
Land	$	13,081	4,451
Buildings and improvements		39,596	21,299
Total cost of assets held for sale		52,677	25,750
Less accumulated depreciation and amortization		(16,937)	(13,669)
Assets held for sale, net	$	35,740	12,081

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, 2019, the gain on the buildings and improvements assets held for sale was approximately $6 million, which is included in other revenue on consolidated statement of activities.

(4) Investments and Fair Value Measurements

The Organization applies the provisions of ASC No. 820, *Fair Value Measurements*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC No. 820 defines fair value as the exchange price that would be received for an asset

(Continued)

or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. The three levels of the fair value hierarchy are as follows:

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

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, 2019 and 2018, 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. 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, 2019 reflects the original contribution as well as the Organization's share of the earnings of the investee, which were approximately $13 million for the period ended June 30, 2019.

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

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

The following table represents investments 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)
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				

(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, 2019 and 2018.

For the valuation of certain cash equivalents, U.S. government and sovereign securities, and fixed income and equity commingled funds at June 30, 2019 and 2018, the Organization used significant other observable inputs, particularly dealer market prices for comparable investments as of the valuation date (Level 2). The Level 2 commingled funds have a readily determinable fair value.

For the most part, the valuation of hedge funds, private equity and debt funds, private real estate and private real assets funds, at June 30, 2019 and 2018, are reported at estimated fair value utilizing the net asset values provided by fund managers as a practical expedient. In a few instances, additional supplemental information provided by the fund manager has been utilized to evaluate fund values and level the investments. Reported fund values utilize significant unobservable inputs; the Organization reviews and evaluates the values provided by fund managers and general partners and agrees with the valuation methods and assumptions used in determining the reported fair values of the alternative investments.

The Organization had no Level 3 reportable transactions for the year ended June 30, 2019. 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 year ended June 30, 2018 (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)	—

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, 2019 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity commingled funds (a)		52,427	—		
Hedge funds (b),(d)	$	3,618	—	N/A	fully redeemed
Hedge funds (b)		388,049	—	monthly to bi-annually*	5-90 days
Private equity and debt (c)		128,699	85,173	None	—
Real estate and real assets (c)		202	7,142	None	—
Total	$	572,995	92,315		

* biannually defined as every two years

(a) Equity Commingled Fund Investments. Equity mandates are global or sector focused (i.e., real estate MLPs). Underlying equity exposures are global equities and cash for liquidity purposes. Positions are generally long and leverage can be used if managers are allowed to hedge foreign current exposures.

(b) Hedge Fund Investments. Hedge fund strategies include: equity long/short, relative value, event driven, arbitrage, macro, and opportunistic strategies. Underlying hedge fund holdings can consist of the full spectrum of global equity, fixed income, commodity, and currency instruments. Positions may be long and short; leverage may also be used. Some funds may invest in side pockets, which are a separate share class and are not available for redemption until the investment is liquidated by the manager.

(c) Non-Marketable Investment Strategies. Private equity and debt strategies include: leveraged buyout, growth equity, venture capital, and distressed debt. Real estate and real assets strategies include natural resources, such as oil and gas or minerals and mining. Nonmarketable funds do not permit redemptions; capital is returned to investors at the discretion of the investment manager and in accordance with limited partnership terms. Interim distributions of interest and dividends can be made; however, capital and realized gains are generally distributed when underlying investments are liquidated. Funds are able to recall distributions. It is expected that the majority of the nonmarketable investments will be liquidated over the next 10 years.

(d) Represents expected redemptions related to audit holdbacks, where funds retain a portion of requested redemptions until the fund's annual audit is complete in order to accommodate potential final NAV adjustments.

The Organization transacts in a variety of derivative instruments, including swaps and options, for investment and hedging purposes, in order to take or mitigate certain exposures. Each instrument's primary underlying exposure could be equities, commodities, interest rates, credit, 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.

The following table lists the notional/contractual amount of derivatives by contract type included in investments at June 30, 2019 and 2018 (in thousands):

Derivative type	2019	2018
Equity contracts	$ —	54,386

There is no reportable fair value of derivatives by contract type as of June 30, 2019 or 2018.

The following table lists gains and losses on derivatives by contract type included in investment income as of June 30, 2019 and 2018 (in thousands):

		Realized gains		Change in unrealized gains/(losses)	
Derivative type		**2019**	**2018**	**2019**	**2018**
Equity contracts	$	(1,498)	11,975	—	(1,928)
Total	$	(1,498)	11,975	—	(1,928)

For the valuation of the Organization's derivative contracts at June 30, 2019, the Organization used significant other observable inputs as of the valuation date (Level 2), including prices of instruments with similar maturities and characteristics, interest rate yield curves, 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, 2019. However, the diversification of the Organization's invested assets among these various asset classes and the risk reduction purpose in the case of hedging assets is management's strategy to mitigate the impact of any dramatic change on any one asset class.

The following schedule summarizes the composition of investment return for the years ended June 30, 2019 and 2018 (in thousands):

		2019			2018
		Without donor restrictions	**With donor restrictions**	**Total**	**Total**
Investment returns available for operations:					
Endowment distribution for the retirement system	$	—	—	—	105,000
Other investment returns		15,147	38,088	53,235	86,785
		15,147	38,088	53,235	191,785
Net nonoperating investment returns		(4,280)	25,005	20,725	(140,849)
Total return on investments, net	$	10,867	63,093	73,960	50,936

(5) Debt

Debt consists of the following at June 30, 2019 and 2018 (in thousands):

		2019	2018
Fixed rate debt:			
Bearing interest rates ranging from 0% to 5.85%, due calendar year 2019 through 2044	$	440,176	441,952
Variable rate debt:			
Bearing interest rates ranging from 1.60% to 3.31%, due calendar year 2019 through 2034:			
Variable rate debt with demand repayment rights		51,125	54,760
Variable rate debt without demand repayment rights		90,000	115,000
Total bonds and notes payable		581,301	611,712
Less current portion		43,888	40,452
Debt, noncurrent portion	$	537,413	571,260

The Organization’s debt is generally backed only by the full faith and credit of the Organization. Certain bonds are subject to redemption prior to the maturity at the option of the Organization. The repayment terms of the variable rate debt generally require monthly payments of interest and annual principal reduction. The registered owners of the bonds and notes with demand repayment rights may demand repurchase of the bonds and notes for an amount equal to the principal plus accrued interest. Letters of credit or standby credit facilities have been established in the aggregate amount of $9 million and $11 million for both fiscal years 2019 and 2018, respectively, to provide liquidity in the event other funding is not available for repurchasing. As of June 30, 2019, the maturity dates for these liquidity facilities are in calendar year 2020. Approximately $9 million of the debt with demand repayment rights bears interest at flexible rates with flexible rate periods of any duration up to 270 days. The remaining debt with demand repayment rights is bearing interest rates that are reset weekly.

Certain of the Organization’s debt agreements include covenants that require the Organization to maintain certain levels of financial ratios. The Organization was in compliance with its covenant requirements as of and for the year ended June 30, 2019.

Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2019 are as follows (in thousands):

2020	$	38,735
2021		38,735
2022		43,835
2023		88,935
2024		29,035
Thereafter		328,950
	$	568,225

Interest expense was approximately $30 million for both years ended June 30, 2019 and 2018, respectively, which is included in contractual services on the statement of functional expenses.

(a) Bank Lines of Credit

The Organization maintained several committed and uncommitted lines of credit with various banks for its working capital requirements. There were no borrowings outstanding under lines of credit as of June 30, 2019 and 2018. The Organization had unused lines of credit outstanding of approximately $275 million at both June 30, 2019 and June 30, 2018. 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 $141 million and $170 million at June 30, 2019 and 2018, 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, 2019, the aggregate notional principal amount under the interest rate swap agreements, with maturity dates ranging from calendar year 2019 through 2025, totaled $42 million. 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. The estimated fair value of the interest rate swap agreements was a liability of approximately $2.8 million and $1.3 million, respectively, and is included in other liabilities in the accompanying consolidated statement of financial position as of June 30, 2019 and 2018.

The change in fair value on these interest rate swap agreements was a loss of approximately $1.6 million and a gain of approximately $1.6 million for the years ended June 30, 2019 and 2018, respectively, and is included in nonoperating gains in the consolidated statements of activities.

For the valuation of the interest rate swaps at June 30, 2019 and 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, 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 $53 million at June 30, 2019 and $55 million at June 30, 2018.

(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):

2020	$	27,662
2021		23,674
2022		20,226
2023		15,946
2024		11,632
Thereafter		67,526
Total minimum lease payments	$	166,666

Total rent expense was approximately $48 million and $46 million for the years ended June 30, 2019 and 2018, 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, 2019 are as follows (in thousands):

2020	$	19,220
2021		19,392
2022		19,568
2023		19,747
2024		19,931
Thereafter		123,669
Total minimum lease payments to be received	$	221,527

The rental income was approximately $19 million for both years ended June 30, 2019, and 2018, respectively, and is included in other revenue on the consolidated statement of activities.

(7) Net Assets

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

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2019 and 2018 (in thousands):

		2019	2018
Disaster and humanitarian services	$	199,796	402,418
International relief and development services		60,166	80,621
Endowment		1,013,098	968,352
Other net assets with restriction to be held in perpetuity		174,573	177,211
Total with donor restrictions net assets	$	1,447,633	1,628,602

With donor restrictions net assets in perpetuity at June 30, 2019 and 2018 consist primarily of endowed contributions, the income from which is available principally to fund general operations. Other with donor restrictions net assets in perpetuity consist of beneficial interests in perpetual trusts and other split-interest agreements (note 9).

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

As of June 30, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and scheduled principal payments on debt, were as follows (in thousands):

		2019
Financial assets:		
Cash and cash equivalents	$	101,101
Short-term investments net		277,187
Trade receivable, including grants, net of allowance for doubtful accounts		84,064
Contributions receivable		21,716
Total financial assets available within one year		484,068
Liquidity resources:		
Letters of credits and other credit facilities		337,000
Total financial assets and liquidity resources available within one year	$	821,068

(8) Endowments

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

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

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

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

A spending rate of 3.8% has been approved for year 2019, which resulted in total distributions of approximately $37 million. For 2018, a one-time spending rate of 15.0% was approved, which resulted in total distributions of approximately $141 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 2019, a spending rate of approximately 3.8% of the trailing five-year market value has been approved for 2020.

Changes in endowment net assets for the year ended June 30, 2019 (in thousands):

		With donor restrictions	Total
Endowment net assets, beginning of year	$	968,352	968,352
Total investment return, net		61,818	61,818
Contributions		19,975	19,975
Appropriation of endowment assets for expenditure		(37,047)	(37,047)
Endowment net assets, end of year	$	1,013,098	1,013,098

(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 $253 million and $248 million in assets under these agreements as of June 30, 2019 and 2018, respectively, which are included in other assets on the consolidated statement of financial position, $41 million and $37 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 $31 million and $28 million for the years ended June 30, 2019 and 2018, respectively, of which $7 million and $4 million included in other current liabilities and $24 million for both years 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. The Plan was closed to employees hired after June 30, 2009.

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

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

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined-benefit pension, funded entirely by the employer. Prior to July 1, 2005, voluntary after-tax contributions could be made by active members to fund an optional annuity benefit. The Organization's funding policy is set to comply with the funding requirements established under the Pension Protection Act of 2006 and to meet the requirements of Employee Retirement Income Security Act of 1974. During fiscal year 2019, the Organization contributed above the required amount for the plan year.

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

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

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

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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, 2019 and 2018 (in thousands):

	Pension benefits		Postretirement benefits	
	2019	**2018**	**2019**	**2018**
Changes in benefit obligations:				
Benefit obligations at beginning of year	$ 2,350,105	2,487,441	57,597	63,598
Service cost	502	518	53	89
Interest cost	102,369	102,595	2,339	2,283
Plan amendment	—	(23,788)	—	—
Actuarial loss (gain)	128,450	(109,674)	2,146	(4,982)
Benefits paid	(131,516)	(120,586)	(3,147)	(3,391)
Annuity purchase and reimbursements from insurance carriers	359	13,599	—	—
Benefit obligations at end of year	2,450,269	2,350,105	58,988	57,597
Changes in plan assets:				
Fair value of plan assets at beginning of year	1,911,088	1,767,341	—	—
Actual return on plan assets	195,992	29,784	—	—
Employer contributions	34,349	220,950	—	—
Benefits paid	(131,516)	(120,586)	—	—
Annuity purchase and reimbursements from insurance carriers	359	13,599	—	—
Fair value of plan assets at end of year	2,010,272	1,911,088	—	—
Funded status-accrued benefit costs	$ (439,997)	(439,017)	(58,988)	(57,597)

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

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

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

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

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

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

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)	—	(2,727)
Net actuarial loss (gain)		24,709	(1,302)	23,407
	$	21,982	(1,302)	20,680

The accumulated benefit obligation for the pension plan was approximately $2.4 billion and $2.3 billion as of June 30, 2019 and 2018, respectively.

The weighted average assumptions used to determine benefit obligations for 2019 and 2018 were as follows:

	Pension benefits		Postretirement benefits	
	2019	2018	2019	2018
Discount rate	3.88%	4.49%	3.45%	4.20%
Rate of compensation increase	—	5.00	—	—

The weighted average assumptions used to determine net benefit cost for 2019 and 2018 were as follows:

	Pension benefits		Postretirement benefits	
	2019	2018	2019	2018
Discount rate	4.49%	4.22%	4.20%	3.70%
Expected return on plan assets	6.00	6.00	—	—
Rate of compensation increase	—	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 7.25% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2019. For measurement purposes, approximately a 7.50% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal year 2018. For both years the rate was assumed to decrease gradually to 4.50% through 2030 and remain at that level thereafter.

The components of net periodic benefit cost (credit) for the years ended June 30, 2019 and 2018 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2019	**2018**	**2019**	**2018**
Service cost	$ 502	518	53	89
Interest cost	102,369	102,595	2,339	2,283
Expected return on plan assets	(119,207)	(128,085)	—	—
Amortization of prior service credit	(2,727)	—	(230)	(1,180)
Net amortization loss (gain)	18,797	20,899	(2,284)	(980)
Net periodic benefit cost (credit)	$ (266)	(4,073)	(122)	212

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

	Point increase	Point decrease
Effect on total of service and interest cost components	$ 3	(3)
Effect on postretirement benefit obligation	66	(59)

The minimum funding requirement for the pension plan during the year ended June 30, 2019 is $113 million.

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
2020	$	238,864	3,890
2021		174,566	3,906
2022		172,637	3,934
2023		167,602	3,935
2024		161,703	3,908
2025–2029		760,035	18,668
	$	1,675,407	38,241

The Organization has investment guidelines for the Retirement System (the Plan) assets. The overall objective of the guidelines is to ensure the Plan's assets appropriately hedge the liability risks and also considering other market risks while ensuring that the portfolio income and liquidity are appropriate to meet the Plan's benefit payments and other expenses. The Plan's investments are designed in such manner that no single investment would have a disproportionate net impact on the plan funded status. The Plan's asset allocation is reviewed regularly with current market assumptions to realign the asset mix with the long-term investment goals for the Plan. (See note 4 for descriptions of the methodologies used to value Plan's assets, 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's assets were invested in the following categories at June 30, 2019 and 2018:

	Pension assets	
	2019	2018
Cash and short-term investments	6%	6%
Equity	7	32
Fixed income	64	39
Marketable and nonmarketable alternative funds	23	23
	100%	100%

The Plan's assets were within authorized asset allocation ranges at June 30, 2019 and 2018.

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

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

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
U.S. 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

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

The Organization had no reportable Level 3 transactions for its defined-benefit plan for the year ended June 30, 2019. 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 year ended June 30, 2018 (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)	—

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

The Plan makes special use of derivatives to hedge (partially or fully) the interest rate exposure of its pension liabilities. The liabilities are valued via a "discount rate" of investment grade corporate bonds. Uncertainty of future discount rates adds variability to the Plan's funded status as liability valuations shift with rates. Hedging looks to reduce that risk. During the first part of the fiscal year ended June 30, 2019, 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, 2019 and 2018 (in thousands):

Derivative type		2019	2018
Interest rate contracts	$	(10,777)	347,240
Credit default swaps		(9,400)	—
Equity contracts		—	167,592

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2019 and 2018 (in thousands):

		Derivative assets		Derivative liabilities	
Derivative type		**2019**	**2018**	**2019**	**2018**
Interest rate contracts	$	214	7,684	386	—
Credit default swaps		203	—	—	—
Equity contracts		—	—	—	264
Fair value of derivatives included in investments	$	417	7,684	386	264

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, 2019 and 2018 (in thousands):

		Realized gains/(losses)		Change in unrealized gains/(losses)	
Derivative type		**2019**	**2018**	**2019**	**2018**
Interest rate contracts	$	29,433	(12,237)	(7,755)	5,883
Credit default swaps		9	—	21	—
Equity contracts		6,386	18,573	264	(2,066)
Total	$	35,828	6,336	(7,470)	3,817

For the valuation of the Plan's derivative contracts at June 30, 2019, 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.

(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 $33.5 million and $33.7 million in Red Cross employer contributions to the Savings Plan in 2019 and 2018, 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, 2019 and 2018 and the total cost of the program approximates the 30-day LIBOR plus 1%. At June 30, 2019 and 2018, the amount of outstanding borrowings under the securitization program was $111 million and $109 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 23, 2019.