



THE AMERICAN NATIONAL RED CROSS

Consolidated Financial Statements

June 30, 2023

(With summarized information for the year ended June 30, 2022)

(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:

Report on the Financial Statements

Opinion

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, 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

McLean, Virginia
October 26, 2023

THE AMERICAN NATIONAL RED CROSS
Consolidated Statement of Financial Position
June 30, 2023
(With comparative information as of June 30, 2022)
(In thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 61,909	292,369
Investments (note 4)	764,278	470,946
Trade receivables, including grants, net of allowance for doubtful accounts of \$1,893 in 2023 and \$1,792 in 2022 (note 11)	253,441	244,559
Contributions receivable (note 2)	30,325	30,724
Inventories, net of allowance for obsolescence of \$224 in 2023 and \$250 in 2022	61,511	59,996
Other current assets	65,098	48,518
Total current assets	1,236,562	1,147,112
Noncurrent assets:		
Investments (note 4)	1,558,098	1,515,968
Contributions receivable (note 2)	22,178	24,936
Right-of-use assets-operating leases (note 6)	125,933	123,213
Land, buildings, and other property, net (note 3)	724,139	700,114
Assets held for sale, net (note 3)	3,220	27,985
Prepaid pension assets (note 10)	104,046	66,975
Other assets (note 9)	254,145	265,879
Total noncurrent assets	2,791,759	2,725,070
Total assets	\$ 4,028,321	3,872,182
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 317,597	354,043
Current portion of debt (note 5)	8,000	8,331
Current portion of lease obligation-operating (note 6)	26,118	25,530
Postretirement benefits (note 10)	3,329	3,745
Other current liabilities (notes 9 and 11)	10,948	135,141
Total current liabilities	365,992	526,790
Noncurrent liabilities:		
Debt (note 5)	365,100	373,103
Long-term lease obligation-operating (note 6)	113,491	110,686
Postretirement benefits (note 10)	35,603	39,047
Other liabilities (notes 5 and 9)	128,140	122,266
Total noncurrent liabilities	642,334	645,102
Total liabilities	1,008,326	1,171,892
Net assets (notes 7 and 8):		
Without donor restrictions	1,370,457	1,016,509
With donor restrictions	1,649,538	1,683,781
Total net assets	3,019,995	2,700,290
Commitments and contingencies (notes 4, 5, 6, 10, 11)		
Total liabilities and net assets	\$ 4,028,321	3,872,182

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Activities

Year ended June 30, 2023

(With summarized information for the year ended June 30, 2022)

(In thousands)

	Without donor restrictions	With donor restrictions	Totals	
			2023	2022
Operating revenues and gains:				
Contributions:				
Corporate, foundation and individual giving	\$ 226,506	482,814	709,320	832,112
United Way and other federated	6,909	13,076	19,985	22,149
Contracts, including federal government	2,181	62,139	64,320	58,644
Legacies and bequests	80,538	21,917	102,455	115,050
Services and materials	18,593	38,566	57,159	53,618
Products and services:				
Biomedical Services	2,011,918	—	2,011,918	1,883,092
Program materials	156,007	—	156,007	135,663
Investment return, net (note 4)	29,685	47,141	76,826	48,705
Other revenues	59,353	16	59,369	69,491
Net assets released from restrictions	662,057	(662,057)	—	—
Total operating revenues and gains	<u>3,253,747</u>	<u>3,612</u>	<u>3,257,359</u>	<u>3,218,524</u>
Operating expenses:				
Program services:				
Services to the Armed Forces	70,215	—	70,215	69,074
Biomedical Services	1,912,771	—	1,912,771	2,022,534
Community Services	20,181	—	20,181	28,383
Domestic Disaster Services	502,338	—	502,338	443,229
Training Services	121,155	—	121,155	118,082
International Relief and Development Services	104,823	—	104,823	116,434
Total program services	<u>2,731,483</u>	<u>—</u>	<u>2,731,483</u>	<u>2,797,736</u>
Supporting services:				
Fundraising	179,837	—	179,837	188,885
Management and general	100,068	—	100,068	97,856
Total supporting services	<u>279,905</u>	<u>—</u>	<u>279,905</u>	<u>286,741</u>
Total operating expenses	<u>3,011,388</u>	<u>—</u>	<u>3,011,388</u>	<u>3,084,477</u>
Change in net assets from operations	242,359	3,612	245,971	134,047
Nonoperating investment return, net (note 4)	15,226	(37,855)	(22,629)	(111,123)
Pension-related changes other than net periodic benefit cost (note 10)	96,363	—	96,363	308,979
Change in net assets	353,948	(34,243)	319,705	331,903
Net assets, beginning of year	<u>1,016,509</u>	<u>1,683,781</u>	<u>2,700,290</u>	<u>2,368,387</u>
Net assets, end of year	<u>\$ 1,370,457</u>	<u>1,649,538</u>	<u>3,019,995</u>	<u>2,700,290</u>

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Functional Expenses
Year ended June 30, 2023
(With summarized information for the year ended June 30, 2022)
(In thousands)

	Program services						Total program services
	Services to the Armed Forces	Biomedical Services	Community Services	Domestic Disaster Services	Training Services	International Relief and Development Services	
Salaries and wages	\$ 35,376	810,294	9,339	131,552	51,197	12,410	1,050,168
Employee benefits	10,130	232,006	2,674	37,666	14,659	3,553	300,688
Subtotal	45,506	1,042,300	12,013	169,218	65,856	15,963	1,350,856
Travel and maintenance	2,140	22,089	139	37,632	2,416	1,980	66,396
Equipment maintenance and rental	517	51,622	358	16,722	199	147	69,565
Supplies and materials	1,512	276,187	769	1,865	18,007	31	298,371
Contractual services	7,085	458,811	3,131	62,275	31,147	651	563,100
Financial and material assistance	11,964	2,525	2,988	202,806	1,034	86,041	307,358
Depreciation and amortization	1,491	59,237	783	11,820	2,496	10	75,837
Total expenses	\$ 70,215	1,912,771	20,181	502,338	121,155	104,823	2,731,483

	Supporting services			Total expenses	
	Fundraising	Management and general	Total supporting services		
				2023	2022
Salaries and wages	\$ 88,750	49,269	138,019	1,188,187	1,124,823
Employee benefits	25,411	14,108	39,519	340,207	584,455
Subtotal	114,161	63,377	177,538	1,528,394	1,709,278
Travel and maintenance	2,703	1,320	4,023	70,419	46,267
Equipment maintenance and rental	1,191	813	2,004	71,569	56,383
Supplies and materials	1,852	538	2,390	300,761	301,454
Contractual services	54,981	32,674	87,655	650,755	623,111
Financial and material assistance	340	466	806	308,164	264,533
Depreciation and amortization	4,609	880	5,489	81,326	83,451
Total expenses	\$ 179,837	100,068	279,905	3,011,388	3,084,477

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Cash Flows

Year ended June 30, 2023

(With comparative information for the year ended June 30, 2022)

(In thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 319,705	331,903
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	81,326	83,451
Amortization of right-of-use assets-operating leases	21,097	32,466
Provision for doubtful accounts receivable	(188)	(248)
Provision for obsolete inventories	(25)	163
Net gains on sales of property	(5,392)	(11,563)
Net investment returns and derivatives (gains)/losses	(59,480)	51,716
Pension and postretirement-related changes other than net periodic benefit costs	(96,363)	(308,979)
Donor-restricted contributions	(15,332)	(12,561)
Changes in operating assets and liabilities:		
Receivables	(5,537)	(33,286)
Inventories	(1,490)	(12,765)
Other assets	(4,846)	58,753
Accounts payable and accrued expenses	(36,446)	54,245
Decrease in operating lease liability obligations	(20,424)	(32,883)
Other liabilities	(118,319)	(34,086)
Pension and postretirement benefits	55,432	113,748
Net cash provided by operating activities	<u>113,718</u>	<u>280,074</u>
Cash flows from investing activities:		
Purchases of property	(83,814)	(65,457)
Proceeds from sales of property	5,895	12,281
Proceeds from properties held for sale	2,725	15,649
Purchases of investments	(730,373)	(559,054)
Proceeds from sales of investments	454,391	412,322
Net cash used in investing activities	<u>(351,176)</u>	<u>(184,259)</u>
Cash flows from financing activities:		
Donor-restricted contributions	15,332	12,561
Repayment of debt	(8,334)	(21,155)
Net cash provided by (used in) financing activities	<u>6,998</u>	<u>(8,594)</u>
Net (decrease) increase in cash and cash equivalents	(230,460)	87,221
Cash and cash equivalents, beginning of year	<u>292,369</u>	<u>205,148</u>
Cash and cash equivalents, end of year	\$ <u>61,909</u>	<u>292,369</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 14,661	14,871

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2023

(With summarized information for the year ended June 30, 2022)

(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 chartered local chapters. Also included in the consolidated financial statements are the net assets and operations of ARC Receivables Company, LLC, a wholly owned bankruptcy-remote special purpose entity. ARC Receivables Company, LLC was included in the net assets and operations for the year ended June 30, 2022 and was dissolved during the year ended June 30, 2023. See Footnote 11 - Receivables Securitization Program. All significant intra-organizational accounts and transactions have been eliminated.

Program activities include Services to the Armed Forces, Biomedical Services, Community Services, Domestic 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.

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

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, products and services, investment returns made available for current use, and other revenues. The measure of operations includes support for operating activities from both donor-restricted sources and those without donor restrictions.

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(With summarized information for the year ended June 30, 2022)

Nonoperating activities primarily include pension-related changes other than net periodic benefit cost and changes in the fair value of investments.

(c) Summarized Comparative Information

The consolidated financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2022 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 consolidated financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the consolidated 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 \$48 million and \$279 million as of June 30, 2023 and 2022, respectively. Cash and cash equivalents that are held as part of the investment portfolio purchased with donor-restricted contributions are reported within investments.

(f) Investments

Investments are reported at fair value except for certain alternative investment funds that, as a practical expedient, are reported at estimated fair value utilizing net asset values (NAVs). Net asset value in some instances, may not equal the fair value. The Organization does not intend to sell any of the funds at an amount different from net asset value per share at June 30, 2023. 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.

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Notes to Consolidated Financial Statements

June 30, 2023

(With summarized information for the year ended June 30, 2022)

(g) Derivative Financial Instruments

The Organization makes use of derivative financial instruments in order to invest in or mitigate certain risks. Derivative financial instruments are recorded at fair value (notes 4 and 10). Derivatives in an asset and liability position are offset against each other and reported net in investments in the consolidated 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 useful life of three or more years are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Interest expense incurred during a period of construction, less related interest income earned on proceeds of tax-exempt borrowings, is capitalized.

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

Application development costs incurred to develop internal-use software are capitalized and amortized over the expected useful life of the software application. The costs incurred in cloud computing arrangements are capitalized and amortized over the term of the hosting arrangement. 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.

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June 30, 2023

(With summarized information for the year ended June 30, 2022)

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

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

(k) Long-lived Assets

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

(l) Leases

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

The Organization leases office space and equipment under noncancelable operating leases which may include renewal or termination options. Renewal or termination options are not reasonably certain of exercise and are therefore not recognized in lease assets and liabilities until the date of exercise. Lease and non-lease components are accounted for together as a single lease component for operating leases associated with office space and equipment leases.

(m) Property and Casualty Insurance

The Organization maintains various insurance policies under which it retains a portion of each insured loss, depending on the line of coverage. 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 \$85 million and \$81 million as of June 30, 2023 and 2022, respectively.

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June 30, 2023

(With summarized information for the year ended June 30, 2022)

(n) Revenue Recognition

(i) Contribution Revenue

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

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

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

(ii) Revenue from Contracts with Customers

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

(iii) Biomedical Services

Biomedical Services provides goods (blood products for hospitals) and related services under single contracts with customers with multiple performance obligations. Blood products sold fall under two main categories – Whole Blood Derived Products, which include red cells, plasma, and cryoprecipitate; and Plateletpheresis Products, which include single donor platelets and plasma. Testing services are performed over all products prior to the sale and delivery of the products. Because the blood products and related 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 the customers. Blood products have a limited shelf life; therefore, any associated refunds or discounts, which historically have not been material, are generally recognized in the same accounting period in which the initial revenue is recognized.

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

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(With summarized information for the year ended June 30, 2022)

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

(iv) Program Materials Revenue

The organization provides various health and safety preparedness classes and certifications including CPR, first aid, AED skills, swimming and water safety, lifeguarding, caregiving skills, and other professional healthcare courses such as Basic Life Support. Revenue generated by these Training Services is included in Program materials on the consolidated statement of activities.

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

(v) Other Revenue

Revenue from grants and contracts, including federal grants, that are considered to be conditional contributions are recorded in the consolidated 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.

(o) Contributed Services and Materials

Contributed services reflect the important impact volunteers have in delivering the Organization's mission. Contributed services are reported at fair value in the consolidated 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 nearly 275,000 volunteers annually. A small percentage of these volunteers meet the above criteria and are reported in contributed services. Contributed services for the year ended June 30, 2023 include the services of approximately 10,067 volunteers. The Organization recorded contributed services revenue and related expense of approximately \$39 million and

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June 30, 2023

(With summarized information for the year ended June 30, 2022)

\$35 million in 2023 and 2022, respectively. These amounts primarily represent 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. For gifts that are not long-lived assets, the restriction is released as the item is used. The Organization does not sell in-kind contributions.

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the statement of activities included (in thousands):

<u>Item</u>	<u>Program</u>	<u>Fair value technique</u>	<u>2023</u>	<u>2022</u>
Clothing and household goods	Domestic Disaster Services, Biomedical Services, and Services to the Armed Forces	Estimated based on US wholesale prices of identical or similar products.	\$ 2,900	6,339
Food	Domestic Disaster Services and Biomedical Services	Estimated based on US wholesale prices of identical or similar products.	6,013	6,349
Medical supplies	Domestic Disaster Services and Biomedical Services	Estimated based on US wholesale prices of identical or similar products.	1,132	633
Various	All Programs	Estimated based on US wholesale prices of identical or similar products.	8,114	5,701
Total			<u>\$ 18,159</u>	<u>19,022</u>

(p) Income Taxes

The American National Red Cross is a not-for-profit organization incorporated by the U.S. Congress through the issuance of a federal charter. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. At June 30, 2023 and 2022, 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 consolidated 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.

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(With summarized information for the year ended June 30, 2022)

(2) Contributions Receivable

The Organization anticipates collection of outstanding contributions receivable as follows at June 30, 2023 and 2022 (in thousands):

	2023	2022
Amounts receivable within one year	\$ 33,098	33,785
Amounts receivable in 1 to 5 years (net of discount of \$1,451 and \$1,206 for 2023 and 2022, respectively)	22,178	24,936
Total contributions receivable before allowance for uncollectible amounts	55,276	58,721
Less allowance for uncollectible amounts	(2,773)	(3,061)
Contributions receivable, net	52,503	55,660
Less current portion	30,325	30,724
Contributions receivable, net, noncurrent	\$ 22,178	24,936

Amounts presented above have been discounted to present value using various discount rates ranging between 0.11% and 5.41%.

As of June 30, 2023, the Organization received conditional grants totaling \$56 million. These grants are conditional based on incurring qualifying expenses and will be recognized as revenue in the periods in which the conditions are fulfilled.

(3) Land, Buildings, and Other Property

The cost and accumulated depreciation of land, buildings, and other property were as follows at June 30, 2023 and 2022 (in thousands):

	2023	2022
Land	\$ 93,176	84,091
Buildings and improvements	1,073,863	1,040,119
Equipment and software	470,011	463,466
Total cost of assets placed in service	1,637,050	1,587,676
Less accumulated depreciation	(984,328)	(929,717)
Construction in progress	71,417	42,155
Land, buildings, and other property, net	\$ 724,139	700,114

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Assets held for sale were as follows at June 30, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Land	\$ 1,032	10,667
Buildings and improvements	<u>10,278</u>	<u>33,537</u>
Total cost of assets held for sale	11,310	44,204
Less accumulated depreciation and amortization	<u>(8,090)</u>	<u>(16,219)</u>
Assets held for sale, net	<u>\$ 3,220</u>	<u>27,985</u>

These assets have been segregated from land, buildings, and other property and presented as assets held for sale within the accompanying consolidated financial statements. The Organization identified these assets as not critical to supporting its primary mission as part of ongoing assessment procedures. The Organization then evaluated the identified assets using the criteria for classification as held for sale included in ASC 360-10, *Impairment and Disposal of Long-Lived Assets*. Certain assets or portions of assets identified were determined to meet the criteria and have been classified as such. The carrying value of these assets has been compared to the current appraised values less cost to sell and determined not to be impaired. During fiscal year ended June 30, 2023, the gain on the buildings and improvements assets held for sale was approximately \$2 million, which is included in other revenue on the consolidated statement of activities.

(4) Investments and Fair Value Measurements

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

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

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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, 2023 and 2022, there were no transfers between levels.

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

As of January 1, 2018, the Organization acquired 40% interest in Creative Testing Solutions. As of February 13, 2020, the Organization acquired 50% interest in ARC-One Solutions, LLC. These investments are accounted for using the equity method and are reflected in long-term investments on the Organization's consolidated statement of financial position. The balance at June 30, 2023 reflects the original contribution, any subsequent distributions received and contributions made, as well as the Organization's share of the earnings of the investee. Earnings were approximately \$14 million for the period ended June 30, 2023 and are reflected in other revenue on the consolidated statement of activities.

The following table represents investments that are measured at fair value on a recurring basis and other investments at June 30, 2023 (in thousands):

	June 30, 2023	Level 1	Level 2	Level 3	Measured at NAV⁽¹⁾
Fixed-income commingled funds	\$ 21,547	—	21,547	—	—
U.S. government and sovereign securities	332,651	—	332,651	—	—
Common and preferred stocks	596	596	—	—	—
Hedge funds	37,318	—	—	—	37,318
Private equity and debt	420,839	—	—	—	420,839
Real estate and real assets	6,427	—	—	—	6,427
Derivative contracts	28,075	—	28,075	—	—
Cash equivalents	<u>1,399,187</u>	<u>924</u>	<u>1,398,263</u>	<u>—</u>	<u>—</u>
Investments stated at fair value	2,246,640	<u>1,520</u>	<u>1,780,536</u>	<u>—</u>	<u>464,584</u>
Equity method investments	<u>75,736</u>				
Total investments	\$ <u>2,322,376</u>				

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The following table represents investments that are measured at fair value on a recurring basis and other investments at June 30, 2022 (in thousands):

	June 30, 2022	Level 1	Level 2	Level 3	Measured at NAV⁽¹⁾
Fixed-income commingled funds	\$ 21,748	—	21,748	—	—
U.S. government and sovereign securities	82,137	—	82,137	—	—
Common and preferred stocks	635	635	—	—	—
Hedge funds	100,124	—	—	—	100,124
Private equity and debt	475,465	—	—	—	475,465
Real estate and real assets	5,363	—	—	—	5,363
Derivative contracts	13,287	—	13,287	—	—
Cash equivalents	1,235,818	4,362	1,231,456	—	—
		<u>4,997</u>	<u>1,348,628</u>	<u>—</u>	<u>580,952</u>
Investments stated at fair value	1,934,577	<u>4,997</u>	<u>1,348,628</u>	<u>—</u>	<u>580,952</u>
Equity method investments	52,337				
Total investments	\$ <u>1,986,914</u>				

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

The Organization used quoted prices in principal active markets for identical assets as of the valuation date (Level 1) to value certain cash equivalents at June 30, 2023 and 2022.

For the valuation of certain cash equivalents, U.S. government and sovereign securities, and fixed income commingled funds at June 30, 2023 and 2022, 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, 2023 and 2022, 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 both fiscal years ended June 30, 2023 and 2022, respectively.

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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, 2023 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds (a),(c)	\$ 11	—	N/A	Fully redeemed
Hedge funds (a)	37,307	—	Quarterly to triennially	60-90 days
Private equity and debt (b)	420,839	60,372	None	
Real estate and real assets (b)	6,427	2,720	None	
Total	\$ <u>464,584</u>	<u>63,092</u>		

- (a) 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 inside 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. 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.
- (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 following table lists the notional/contractual amount of derivatives by contract type included in the Organization's investments at June 30, 2023 and 2022 (in thousands):

<u>Derivative type</u>	<u>2023</u>	<u>2022</u>
Interest rate contracts	\$ 258,355	—
Commodity options	2,193,626	1,106,000
Equity contracts	2,233,280	1,140,710

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The following table lists fair value of derivatives by contract type included in the Organization's investments as of June 30, 2023 and 2022 (in thousands):

Derivative type	Derivative assets		Derivative liabilities	
	2023	2022	2023	2022
Interest rate contracts	\$ 643	—	—	—
Commodity options	23,603	6,810	(12,873)	(85)
Equity contracts	21,863	20,264	(5,161)	(13,703)
Fair value of derivatives included in investments	\$ 46,109	27,074	(18,034)	(13,788)

The following table lists gains and losses on derivatives by contract type included in actual return on Organization investments as of June 30, 2023 and 2022 (in thousands):

Derivative type	Realized gains/(losses)		Change in unrealized gains/(losses)	
	2023	2022	2023	2022
Interest rate contracts	\$ (2,288)	—	643	—
Commodity options	(31,193)	—	27,606	(6,108)
Equity contracts	27,204	(19,141)	10,139	6,511
Total	\$ (6,277)	(19,141)	38,388	403

For the valuation of the Organization's derivative contracts at June 30, 2023, 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.

The Organization transacts in a variety of derivative instruments, including swaps and options, 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, which generally offers higher protection against counterparty risk than collateralization. Foreign exchange derivatives can be used to facilitate trade purchases and sales as well as for hedging purposes.

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

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investments reported in the consolidated statement of financial position as of June 30, 2023. 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, 2023 and 2022 (in thousands):

	2023			2022
	Without donor restrictions	With donor restrictions	Total	Total
Investment returns available for operations:				
Other investment returns	\$ 29,685	47,141	76,826	48,705
	29,685	47,141	76,826	48,705
Net nonoperating investment returns	15,226	(37,855)	(22,629)	(111,123)
Total return on investments, net	\$ 44,911	9,286	54,197	(62,418)

(5) Debt

Debt consists of the following at June 30, 2023 and 2022 (in thousands):

	2023	2022
Fixed rate debt bearing interest rates ranging from 0% to 3.83%, due calendar year 2023 through 2044	\$ 373,100	381,434
Total bonds and notes payable	373,100	381,434
Less current portion	8,000	8,331
Debt, noncurrent portion	\$ 365,100	373,103

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 their 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. The organization had no outstanding debt with demand repayment rights as of June 30, 2023 and 2022.

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 years ended June 30, 2023 and 2022.

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Scheduled maturities and sinking fund requirements of the debt and credit agreements as of June 30, 2023 are as follows (in thousands):

2024	\$	8,000
2025		68,000
2026		20,000
2027		31,000
2028		30,000
Thereafter		<u>216,100</u>
	\$	<u><u>373,100</u></u>

Interest expense was approximately \$15 million for both fiscal years ended June 30, 2023 and 2022, respectively, which is included in contractual services on the statement of functional expenses.

The Organization maintained several committed lines of credit with various banks for its working capital requirements. There were no borrowings outstanding under lines of credit as of June 30, 2023 and 2022. The Organization had unused lines of credit outstanding of approximately \$200 million at both June 30, 2023 and June 30, 2022. The amounts available to be borrowed on the lines of credit are subject to the limitations of the Organization's debt covenants.

The Organization had unused letters of credit outstanding of approximately \$52 million at June 30, 2023 and June 30, 2022.

(6) Leases

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

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

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Operating lease right-of-use assets and lease liabilities as of June 30, 2023, and 2022, were as follows (in thousands):

Operating leases	2023	2022
Right-of-use assets:		
Operating lease assets	\$ 125,933	123,213
Lease liabilities:		
Current operating lease liabilities	\$ 26,118	25,530
Noncurrent operating lease liabilities	113,491	110,686
Total operating lease liabilities	\$ <u>139,609</u>	<u>136,216</u>

Operating expenses for the leasing activity of the Organization as lessee for the years ended June 30, 2023, and 2022, respectively, are as follows (in thousands):

Lease type	2023	2022
Operating lease costs	\$ 35,845	34,018
Short-term lease costs	—	84
Total lease cost	\$ <u>35,845</u>	<u>34,102</u>

Total rent expense was approximately \$46 million and \$43 million for the years ended June 30, 2023 and 2022, respectively, and is included in contractual services on the consolidated statement of functional expenses.

The aggregate future lease payments below summarize the remaining future undiscounted cash flows for operating leases as of June 30, 2023, and a reconciliation to operating lease liabilities reported on the consolidated statement of financial position:

2024	\$ 29,009
2025	25,048
2026	20,521
2027	16,982
2028	13,264
Thereafter	<u>57,127</u>
Total lease payments	161,951
Less interest	<u>(22,342)</u>
Present value of lease liability	\$ <u>139,609</u>

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Average operating lease terms and discount rate at June 30, 2023, and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term (years)	10.76	11.22
Weighted average discount rate	2.33 %	1.95 %

The following summarizes cash paid for operating lease liabilities and other non-cash information as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of operating lease liability	\$ 35,955	34,780
Right-of-use assets obtained in exchange for operating lease obligations	29,205	26,987

Future minimum rental payments to be received by the Organization for office space leased at the National Headquarters building as of June 30, 2023 are as follows (in thousands):

2024	\$ 20,931
2025	21,313
2026	21,618
2027	21,839
2028	22,065
Thereafter	<u>44,828</u>
Total minimum lease payments to be received	\$ <u><u>152,594</u></u>

The rental income was approximately \$21 million and \$20 million for the years ended June 30, 2023, and 2022, respectively, and is included in other revenue on the consolidated statement of activities.

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(7) Net Assets

Net assets with donor restrictions are available for the following purposes or periods as of June 30, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Disaster and Humanitarian Services	\$ 175,080	136,406
International Relief and Development Services	76,249	124,496
Endowment	1,224,404	1,236,904
Other net assets with restrictions to be held in perpetuity	<u>173,805</u>	<u>185,975</u>
Total net assets with donor restrictions	<u>\$ 1,649,538</u>	<u>1,683,781</u>

Endowment at June 30, 2023 and 2022 consists primarily of endowed contributions, the income from which is available principally to fund general operations. Other net assets with donor restrictions to be held in perpetuity consist of beneficial interests in perpetual trusts and other split-interest agreements (note 9).

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

As of June 30, 2023, and 2022, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and scheduled principal payments on debt, were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 61,909	292,369
Short-term investments, net	764,278	470,946
Trade receivable, including grants, net of allowance for doubtful accounts	253,441	121,102
Contributions receivable	<u>6,130</u>	<u>7,467</u>
Total financial assets available within one year	1,085,758	891,884
Liquidity resources:		
Letters of credit and other credit facilities	<u>252,000</u>	<u>252,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,337,758</u>	<u>1,143,884</u>

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(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 based on the prior fiscal year-end market value.

A spending rate of 3.8% was approved for fiscal year 2023, which resulted in total distributions of approximately \$47 million. The distributions represent utilization of accumulated realized gains, which were calculated based on the prior fiscal year-end market value. Consistent with fiscal year 2023, a spending distribution of \$47 million was approved for fiscal year 2024.

Changes in endowment net assets for the year ended June 30, 2023 (in thousands):

	2023		2022
	With donor restrictions	Total	Total
Endowment net assets, beginning of year	\$ 1,236,904	1,236,904	1,272,232
Total investment return, net	20,319	20,319	(863)
Contributions	14,332	14,332	12,561
Appropriation of endowment assets for expenditure	<u>(47,151)</u>	<u>(47,151)</u>	<u>(47,026)</u>
Endowment net assets, end of year	<u>\$ 1,224,404</u>	<u>1,224,404</u>	<u>1,236,904</u>

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(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 \$254 million and \$266 million in assets under these agreements as of June 30, 2023 and 2022, respectively, which are included in other assets on the consolidated statement of financial position, \$45 million and \$43 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 \$34 million and \$30 million for the years ended June 30, 2023 and 2022, respectively, of which \$7 million is included in other current liabilities for both years, respectively, and \$27 million and \$23 million for the years ended June 30, 2023 and 2022, respectively, are included in other noncurrent liabilities on the consolidated statement of financial position.

(10) Benefit Plans

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

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

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

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

For funding purposes under the Plan, normal pension costs are determined by the projected unit credit method and are funded currently. The Plan provides a defined-benefit pension, funded entirely by the employer. Prior to July 1, 2005, voluntary after-tax contributions could be made by active members to fund an optional annuity benefit. The Organization's funding policy is set to comply with the funding requirements established under the Pension Protection Act of 2006 and to meet the requirements of Employee Retirement Income Security Act of 1974. During fiscal year 2023, the Organization contributed 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-day period commencing on the first day of the month on or next following termination of employment or be retirement eligible. The Plan was further amended effective January 1, 2020 to allow all vested terminated employees and retirement eligible who have not previously commenced benefits to elect lump sum payments. In addition, all previously available distribution options continue to be available.

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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 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. Plans can vary from Medicare Advantage, Part D Prescription Drug, and Medicare Supplement Plans.

The Organization completed an annuity purchase for retirees with benefits of \$1,600 per month or less, effective April 13, 2022. A one-time charge under settlement accounting resulted in \$266.7 million being recognized based on the annuity purchase and lump sums paid through June 2022.

Separately, the amount of lump sum payments elected by retirees and paid by the Plan during the year ended June 30, 2023 required the Plan to record a one-time charge under settlement accounting of \$27 million.

The fiscal year 2023 expense was remeasured on June 30, 2023 to reflect the settlement and economic conditions at that time.

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, 2023 and 2022 (in thousands):

	Pension benefits		Postretirement benefits	
	2023	2022	2023	2022
Changes in benefit obligations:				
Benefit obligations at beginning				
of year	\$ 1,221,547	2,387,498	42,792	54,346
Service cost	—	21	5	11
Interest cost	60,132	75,128	2,003	1,416
Plan amendment	—	—	—	—
Actuarial (gain)	(62,636)	(345,653)	(2,654)	(9,552)
Benefits paid	(54,334)	(108,136)	(3,214)	(3,429)
Annuity purchase and				
reimbursements from insurance				
carriers	7,614	5	—	—
Settlements	(81,700)	(787,316)	—	—
Benefit obligations at end of year	1,090,623	1,221,547	38,932	42,792

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	Pension benefits		Postretirement benefits	
	2023	2022	2023	2022
Changes in plan assets:				
Fair value of plan assets at beginning of year	\$ 1,288,522	2,270,796	—	—
Actual return on plan assets	32,067	(291,827)	—	—
Employer contributions	2,500	205,000	—	—
Benefits paid	(54,334)	(108,136)	—	—
Annuity purchase and reimbursements from insurance carriers	7,614	5	—	—
Settlements	(81,700)	(787,316)	—	—
Fair value of plan assets at end of year	1,194,669	1,288,522	—	—
Funded status-accrued benefit costs	\$ <u>104,046</u>	<u>66,975</u>	<u>(38,932)</u>	<u>(42,792)</u>

Pension-related changes other than net periodic benefit cost for 2023:

	Pension benefits	Postretirement benefits	Total
Prior service benefit	\$ (2,727)	—	(2,727)
Amortized net loss (gain)	7,343	(4,144)	3,199
Net actuarial loss	61,355	8,004	69,359
Net settlement loss	26,532	—	26,532
	<u>\$ 92,503</u>	<u>3,860</u>	<u>96,363</u>

Pension-related changes other than net periodic benefit cost for 2022:

	Pension benefits	Postretirement benefits	Total
Prior service benefit	\$ (2,727)	—	(2,727)
Amortized net loss (gain)	23,282	(985)	22,297
Net actuarial loss	10,127	12,538	22,665
Net settlement loss	266,744	—	266,744
	<u>\$ 297,426</u>	<u>11,553</u>	<u>308,979</u>

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Items not yet recognized as a component of net periodic benefit cost for 2023:

	Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	\$ (10,152)	—	(10,152)
Unrecognized net actuarial loss	354,180	15,595	369,775
	\$ <u>344,028</u>	<u>15,595</u>	<u>359,623</u>

Items not yet recognized as a component of net periodic benefit cost for 2022:

	Pension benefits	Postretirement benefits	Total
Unrecognized prior service credit	\$ (12,879)	—	(12,879)
Unrecognized net actuarial loss	449,410	17,084	466,494
	\$ <u>436,531</u>	<u>17,084</u>	<u>453,615</u>

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)	7,342	(4,144)	3,198
	\$ <u>4,615</u>	<u>(4,144)</u>	<u>471</u>

The accumulated benefit obligation for the pension plan was approximately \$1.1 billion and \$1.2 billion as of June 30, 2023 and 2022, respectively.

The weighted average assumptions used to determine benefit obligations for 2023 and 2022 were as follows:

	Pension benefits		Postretirement benefits	
	2023	2022	2023	2022
Discount rate	5.86 %	5.26 %	5.60 %	4.90 %

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The weighted average assumptions used to determine net benefit cost for 2023 and 2022 were as follows:

	Pension benefits		Postretirement benefits	
	2023	2022	2023	2022
Discount rate	5.26 %	3.42 %	4.90 %	2.70 %
Expected return on plan assets	2.55 %	2.30 %	—	—

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 an 8% and 6.25% annual rate of increase in the per capita cost of covered healthcare benefit was assumed for fiscal years 2023 and 2022, respectively. The rate was assumed to decrease gradually to 4.5% through 2037 and remain at that level thereafter.

The components of net periodic benefit cost (credit) for the years ended June 30, 2023 and 2022 were as follows (in thousands):

	Pension benefits		Postretirement benefits	
	2023	2022	2023	2022
Service cost	\$ —	21	5	11
Interest cost	60,132	75,128	2,003	1,416
Expected return on plan assets	(33,348)	(43,699)	—	—
Amortization of prior service credit	(2,727)	(2,727)	—	—
Net amortization loss (gain)	7,343	23,282	(4,144)	(985)
Settlement loss	26,532	266,743	—	—
Net periodic benefit cost	\$ <u>57,932</u>	<u>318,748</u>	<u>(2,136)</u>	<u>442</u>

There is no minimum funding requirement for the pension plan during the year ended June 30, 2023.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, as of June 30, 2023 (in thousands):

	<u>Pension benefits</u>	<u>Postretirement benefits</u>
2024	\$ 139,898	3,423
2025	92,622	3,390
2026	93,728	3,354
2027	90,086	3,299
2028	86,353	3,252
2029–2033	<u>408,668</u>	<u>15,290</u>
	\$ <u>911,355</u>	<u>32,008</u>

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

The Plan's assets were invested in the following categories at June 30, 2023 and 2022:

	<u>Pension assets</u>	
	<u>2023</u>	<u>2022</u>
Cash and short-term investments	62 %	64 %
Equity	1	—
Fixed income	<u>37</u>	<u>36</u>
	<u>100 %</u>	<u>100 %</u>

The Plan's assets were within authorized asset allocation ranges at June 30, 2023 and 2022.

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The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2023 (in thousands):

	June 30, 2023	Level 1	Level 2	Level 3	Measured at NAV⁽¹⁾
U.S. government and sovereign securities	\$ 408,639	—	408,639	—	—
Hedge funds	715	—	—	—	715
Private equity and debt	1,659	—	—	—	1,659
Derivative contracts	42,913	(18,894)	61,807	—	—
Cash and cash equivalents	740,743	4,095	736,648	—	—
Total plan assets	\$ 1,194,669	(14,799)	1,207,094	—	2,374

The following table represents pension plan assets that are measured at fair value on a recurring basis at June 30, 2022 (in thousands):

	June 30, 2022	Level 1	Level 2	Level 3	Measured at NAV⁽¹⁾
U.S. government and sovereign securities	\$ 480,894	—	480,894	—	—
Hedge funds	2,460	—	—	—	2,460
Private equity and debt	2,184	—	—	—	2,184
Derivative contracts	(29,996)	(290)	(29,706)	—	—
Cash and cash equivalents	832,981	4,125	828,856	—	—
Total plan assets	\$ 1,288,523	3,835	1,280,044	—	4,644

⁽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 both fiscal years ended June 30, 2023 and 2022, respectively.

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 and credit risk of its pension liabilities. The liabilities are valued via a "discount rate" of investment grade

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corporate bonds. Uncertainty of future discount rates adds variability to the Plan's funded status as liability valuations shift with rates. Hedging looks to reduce that risk. During the fiscal year ended June 30, 2023, the Plan used interest rate futures and treasury contracts to manage interest rate exposure and credit default swaps to manage the credit spread exposure. Management of interest rate exposure may change over time based upon a variety of factors, such as market conditions, perceived investment opportunities and risks, and investment goals and objectives.

The following table lists the notional/contractual amount of derivatives by contract type included in pension plan assets at June 30, 2023 and 2022 (in thousands):

Derivative type		2023	2022
Treasury contracts	\$	1,757,910	2,121,542
Interest rate contracts		2,333,142	(81,494)
Credit default swaps		1,610,000	2,710,000
Equity contracts		1,327,249	1,410,025

The following table lists fair value of derivatives by contract type included in pension plan assets as of June 30, 2023 and 2022 (in thousands):

Derivative type	Derivative assets		Derivative liabilities	
	2023	2022	2023	2022
Treasury contracts	\$ 10,487	3,733	(6,420)	(39,598)
Interest rate contracts	27,960	—	(19,839)	(290)
Credit default swaps	24,179	—	—	(1,558)
Equity contracts	10,233	24,972	(3,687)	(17,255)
Fair value of derivatives included in investments	\$ <u>72,859</u>	<u>28,705</u>	<u>(29,946)</u>	<u>(58,701)</u>

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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, 2023 and 2022 (in thousands):

Derivative type	Realized gains/(losses)		Change in unrealized gains/(losses)	
	2023	2022	2023	2022
Treasury contracts	\$ (105,228)	(128,906)	39,950	(50,063)
Interest rate contracts	2,806	36,902	8,411	(9,027)
Credit default swaps	(7,042)	(14,923)	51,578	(44,434)
Equity contracts	35,375	(19,343)	(1,172)	7,717
Total	\$ (74,089)	(126,270)	98,767	(95,807)

For the valuation of the Plan's derivative contracts at June 30, 2023, 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 \$39 million and \$34 million in Red Cross employer contributions to the Savings Plan in 2023 and 2022, respectively.

(11) Receivables Securitization Program

Until December 2022, the Organization had an asset securitization program. The program was structured to sell the eligible biomedical hospital accounts receivables, without legal recourse, to a third-party investor through a wholly owned bankruptcy-remote special purpose entity that was consolidated for financial reporting purposes. Proceeds received under the securitization program were treated as secured borrowings. In December 2022, the Organization paid off the full amount of outstanding borrowings under the securitization program, \$125 million, terminating the program.

In fiscal year 2022, the maximum amount of the agreement was \$125 million and the total cost of the program approximated the 30-day LIBOR plus 1%. At June 30, 2022, the amount of outstanding borrowings under the securitization program was \$123 million and was included in other current liabilities on the consolidated statement of financial position.

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(12) Commitments and Contingencies

(a) *Litigation*

The Organization is a party to various litigation, investigations and regulatory inquiries incidental to its operations. In the opinion of management, the ultimate resolution of these matters will not have a materially adverse effect on the Organization's financial position or future results of operations.

(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 26, 2023.