



U.S. Department of Defense

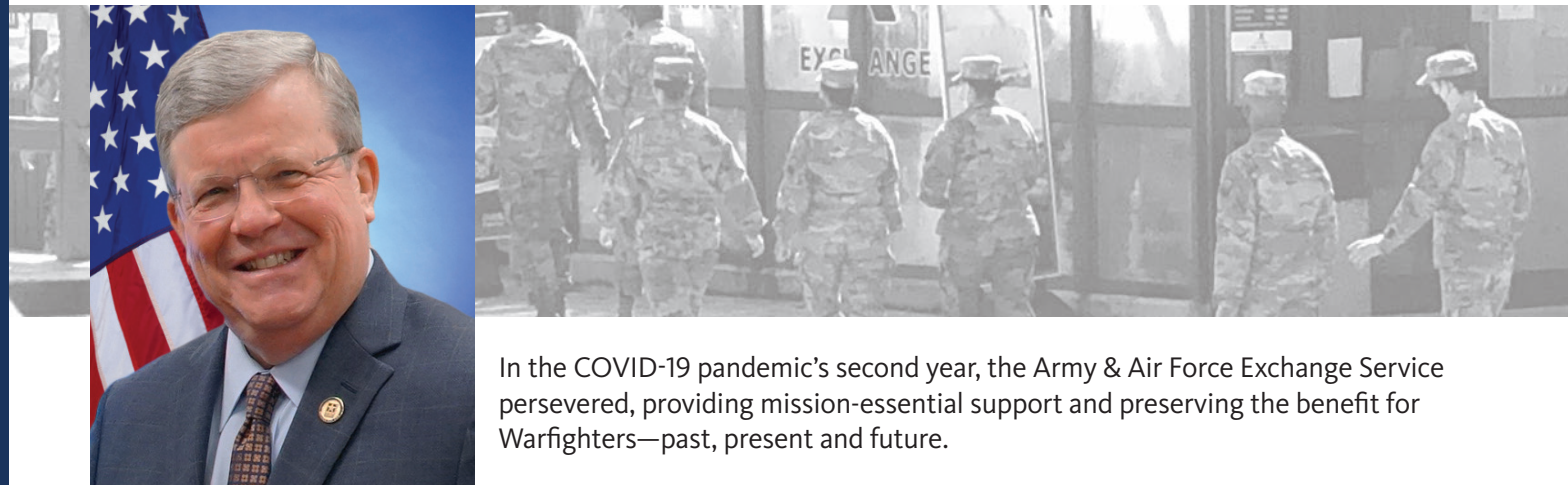
Strengthening the Benefit for Warfighters and Families



2021 MISSION REPORT



Persevering During Challenging Times: The Exchange Remains Strong



In the COVID-19 pandemic's second year, the Army & Air Force Exchange Service persevered, providing mission-essential support and preserving the benefit for Warfighters—past, present and future.

At the beginning of the pandemic, the Exchange resolved to avoid layoffs and furloughs. The organization kept this commitment in 2021, retaining associates when military communities needed them most.

Despite continued challenges presented by the pandemic, such as supply chain delays, the Exchange team exceeded targets for 2021, recording \$8.2 billion in revenue with \$318 million in dividend-eligible earnings. These earnings enabled the Exchange to contribute \$205 million to critical Quality-of-Life programs that promote military readiness.

The Exchange team was all in to serve Soldiers, Airmen, Guardians and the military community throughout 2021. Highlights included:

- Supporting 45 military exercises at the tip of the spear.
- Serving more than 76,000 resettled Afghan guests as part of Operation Allies Welcome.
- Expanding career opportunities for Veterans and military spouses.
- Launching name-brand fuel and meal delivery in CONUS.
- Unveiling the Korea Distribution Center and bakery at U.S. Army Garrison Humphreys.
- Expanding health and wellness services to include chiropractic care.
- Growing strategic partnerships.

A crucial nonpay benefit, the Exchange remains steadfast in its mission to ensure members of the military community know they can find care and comfort when they're at home and a taste of home when they are assigned abroad or in austere locations. Your Exchange remains agile and strong, upholding our 126-year legacy of service and support.

Tom Shull
Director/Chief Executive Officer

2021 BOARD OF DIRECTORS

Per Army Regulation 215-8/Air Force Instruction 24-211 (I), the Secretary of the Army and the Secretary of the Air Force have oversight responsibility of the Army & Air Force Exchange Service Board of Directors and Exchange operations.



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Army & Air Force Exchange Service



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Mr. Andrew K. Weaver
Executive Secretary

MILITARY COMMUNITY SUPPORT

DEPARTMENT OF DEFENSE'S LARGEST RETAILER

- Serving those who serve since 1895
- 33.5 million authorized shoppers and families
- Operating almost entirely on the sale of goods and services—not tax dollars
- Major employer of military families, with 85% of 29,000 associates connected to the military
- Career opportunities through the DoD Military Spouse Employment Partnership
- 50th Anniversary Vietnam War Commemorative Partner
- Pinning ceremonies to honor Vietnam-era Veterans every March 29, National Vietnam War Veterans Day
- Giveaways, sweepstakes, activities and more every April in honor of Month of the Military Child

VITAL NONPAY BENEFIT

- Tax-free shopping
- Military-exclusive pricing
- Lifetime benefit
- Pricing parity for most retail goods
- 3 million+ items at ShopMyExchange.com

MISSION SUPPORT

- 712,000 military uniforms outfitted at cost in 2021
- 370 facilities in austere locations in Southwest Asia and Eastern Europe
- Mobile field Exchanges for military exercises and disaster support

OVERSEAS SUPPORT

- 7 plants (bakeries and water)
- 5.5 million baked goods produced
- 4.2 million meals served in Department of Defense Education Activity schools

VETERANS AND SPOUSE EMPLOYMENT

- 45.6% of associates are Veterans, spouses or dependents
- 10,226 Veterans and 43,639 military spouses have joined the Exchange workforce since 2013
- 1,902 Wounded Warriors hired since 2010



RETAIL

- Operations in more than 30 countries, 50 states and four U.S. territories
- 121 PXs/BXs with national brands
- 580 convenience stores (Expresses, gas stations, troop stores, specialty stores, Class Six)
- 165 Military Clothing stores
- Online shopping, including privileges for honorably discharged Veterans

RESTAURANTS

- 1,600 restaurants with better-for-you options
- 53 restaurants opened in 2021
- 85 million meals served

SERVICES

- More than 3,470 mall stores and kiosks, including wellness services like dentistry and optometry
- 52 movie theaters
- 170,000 internet subscribers

WORLDWIDE LOGISTICS

- 3rd largest shipper in the defense transportation system
- 10 distribution centers
- 47.4 million cases shipped
- 10th largest private retail fleet
- 12.6 million miles driven

MILITARY STAR®

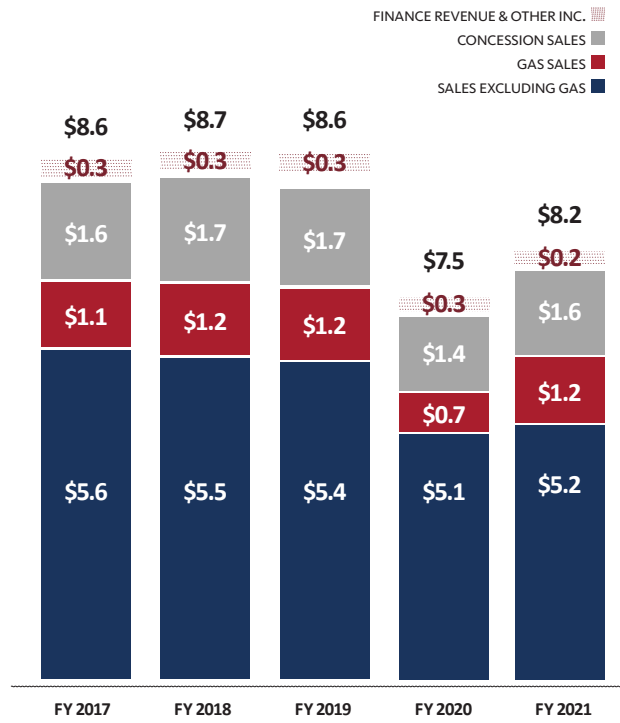
- Generated \$408M in annual value for the military community
- Avoided \$30.8 million in merchant fees
- Distributed \$34.4 million in personal dividends through the rewards program
- All cardholders receive the same low competitive APR regardless of credit score

\$3.5B
IN EARNINGS TO
QUALITY-OF-LIFE PROGRAMS
IN THE LAST 10 YEARS

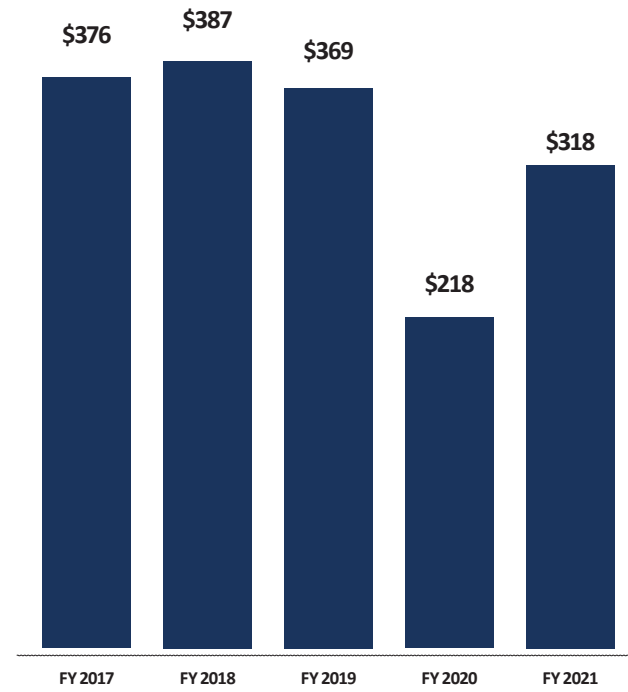
33.5M
SHOPPERS AND
MILITARY FAMILIES

100%
OF EXCHANGE EARNINGS
SUPPORT THE MILITARY
COMMUNITY

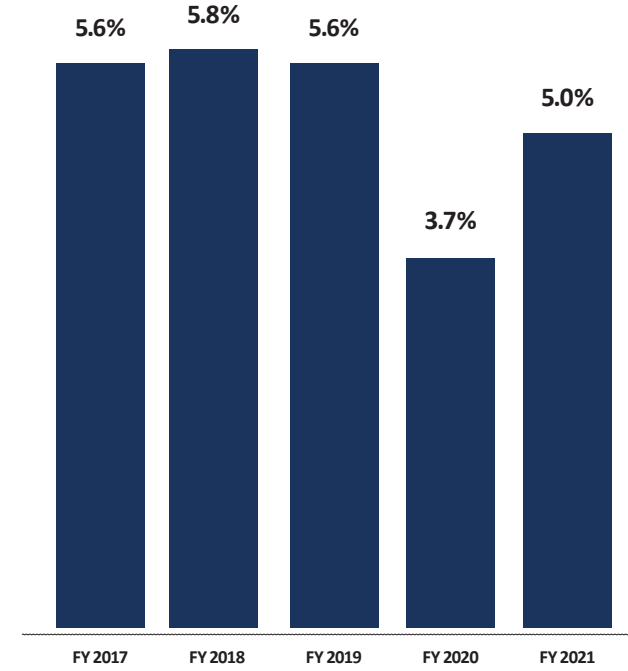
FINANCIAL HIGHLIGHTS



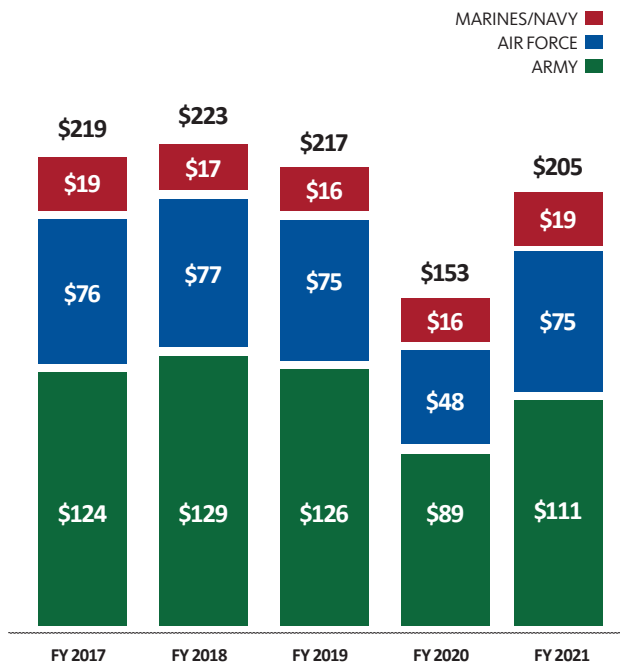
TOTAL REVENUE*
(\$ BILLIONS)



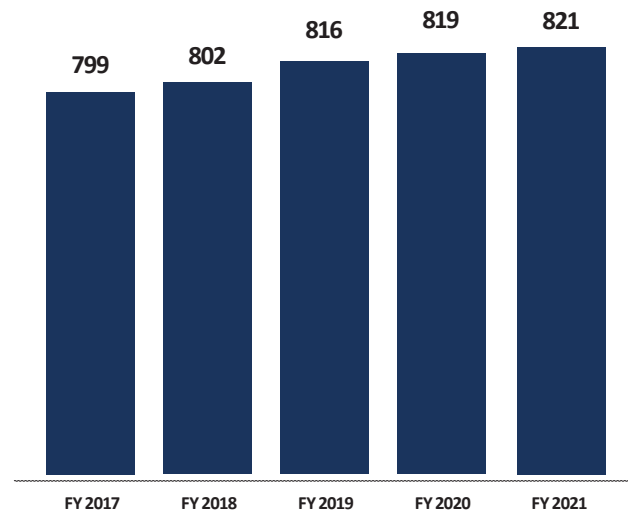
EARNINGS SUBJECT TO DIVIDENDS**
(\$ MILLIONS)



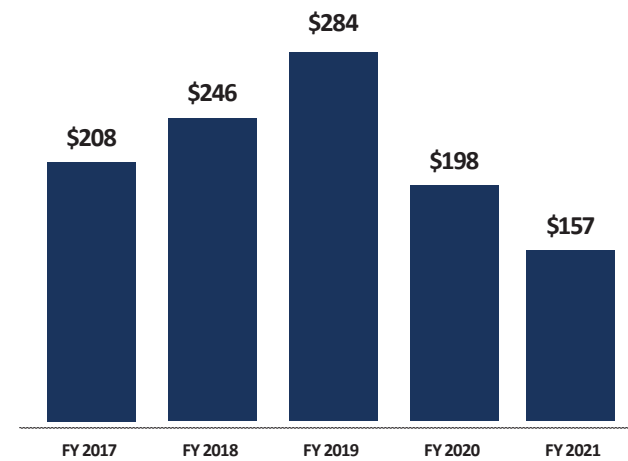
EARNINGS PERCENT OF SALES**



ARMY, AIR FORCE, MARINES/NAVY DIVIDENDS
(\$ MILLIONS)

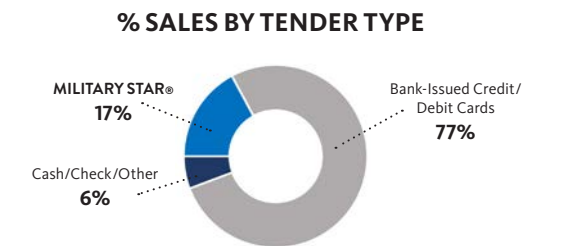
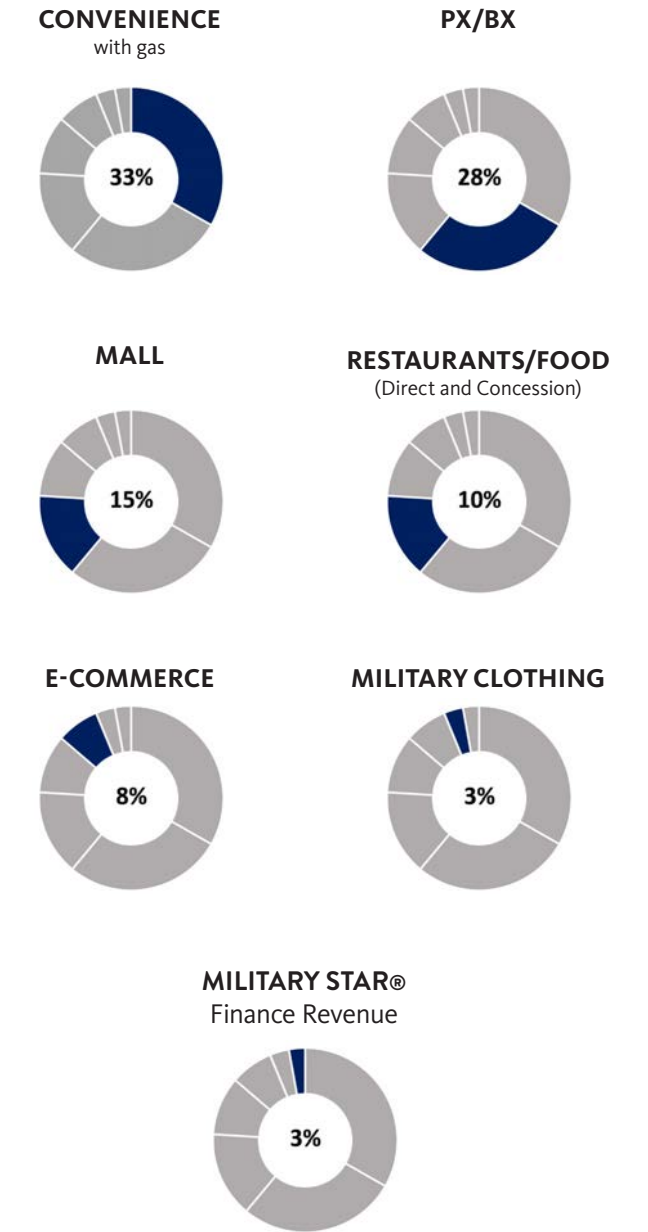


ACTIVE DUTY ARMY & AIR FORCE
(THOUSANDS)



CAPITAL EXPENDITURES
(\$ MILLIONS)

TOTAL 2021 REVENUE COMPOSITION



*Total Revenue includes concession sales (non-GAAP measure).

**Earnings Subject to Dividends and Earnings % of Sales reports show adjusted earnings pursuant AAFES BoD dividend policy and exclude certain non-operating expenses

Resiliency Downrange

Serving Those Who Serve at the Tip of the Spear

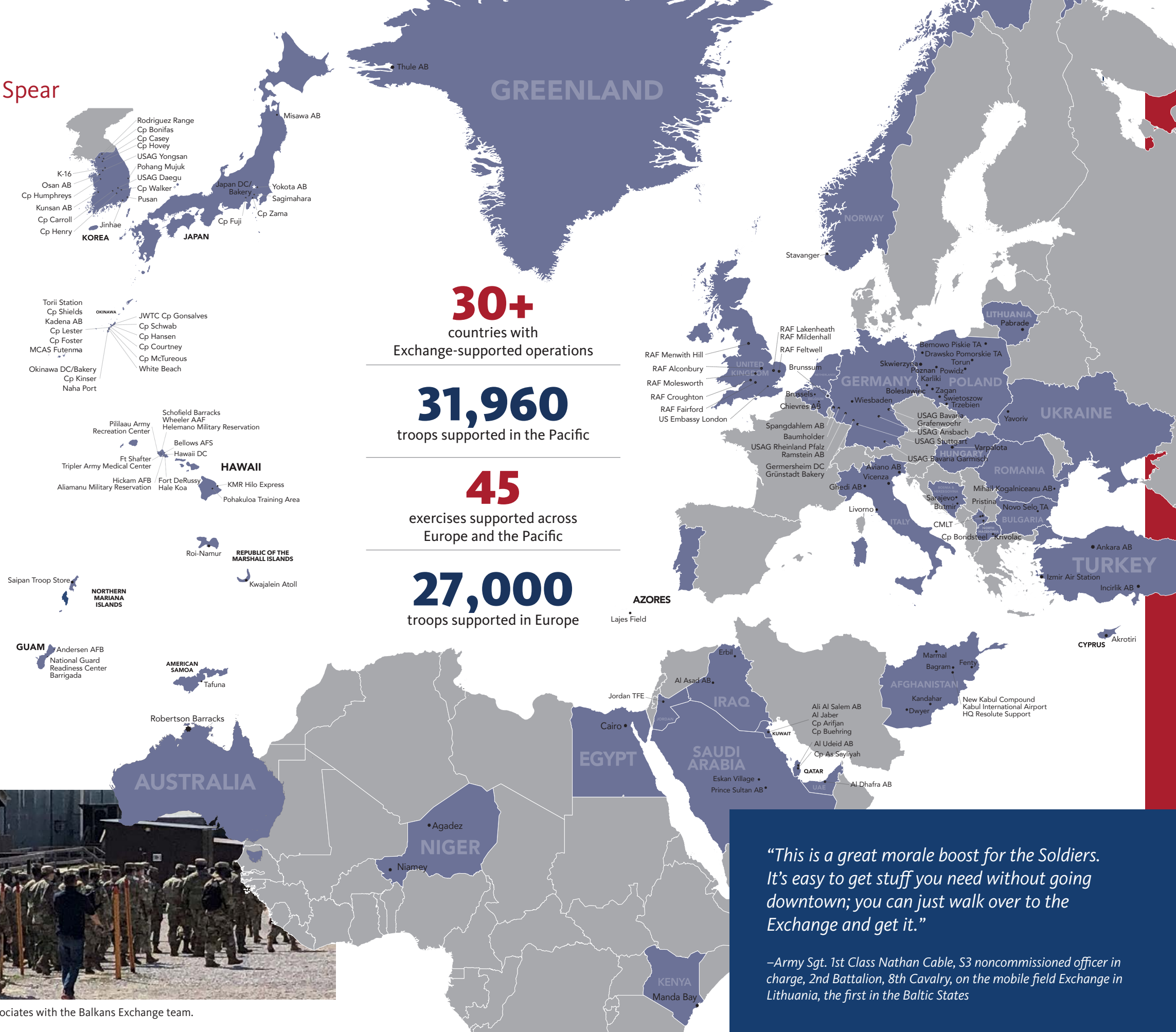
Through small storefronts, imprest fund activities and mobile field Exchanges (MFEs), the Exchange has kept its “we go where you go” promise.

The first PX in the Baltic States opened in February, supporting Pabrade Training Area in Lithuania. After the 2nd Battalion, 8th Cavalry Regiment requested support, an Exchange team turned an empty office container into a store in just six days.

When 6,800 troops deployed for Operation Atlantic Resolve and 7,600 deployed for Exercise DEFENDER-Europe 21, the Exchange followed. In northern Poland, a rapid response team set up two MFEs within four days. At Krivolak Training Area, Republic of Macedonia, a rodeo served more than 150 troops supporting DEFENDER-Europe 21. In total, the Exchange supported 18 exercises in Europe in 2021.

The last Exchange in Afghanistan, at Bagram Air Base, closed in May as U.S. forces withdrew from the country, marking the end of a nearly 20-year mission that saw more than 1,000 Exchange associates deployed to serve troops in often hostile conditions. All inventory and assets were rapidly removed, supporting the military’s target to have all U.S. personnel out of the country by the end of August.

In the Pacific, the Exchange served more than 7,300 members of U.S. and international forces during Exercise Cope North and DEFENDER-Pacific 21 in Guam. The Exchange also supported Exercises Orient Shield and Yama Sakura in Japan, Combined Command Post Training (CCPT) 21 in South Korea, and Exercises Garuda Shield in Hawaii and Koolondong in Australia, as well as local and smaller-scale exercises for nearly 20,000 troops in Guam, South Korea and Hawaii.



U.S. troops supporting Exercise DEFENDER—Europe 21 head to a rodeo set up by associates with the Balkans Exchange team.

“This is a great morale boost for the Soldiers. It’s easy to get stuff you need without going downtown; you can just walk over to the Exchange and get it.”

—Army Sgt. 1st Class Nathan Cable, S3 noncommissioned officer in charge, 2nd Battalion, 8th Cavalry, on the mobile field Exchange in Lithuania, the first in the Baltic States

Supporting Operation Allies Welcome

In July, when at-risk Afghan civilians and their families began arriving at U.S. military installations and staging points around the globe, the Exchange helped comfort them as they made their way to new homes in the U.S. under Operation Allies Welcome (OAW).

At the request of the Services, the Exchange deployed seven mobile field Exchanges (MFEs)—stores on wheels packed with snacks, beverages and hygiene products—to serve the guests who had supported the U.S. mission in Afghanistan at:

- Fort Lee, Virginia
- Fort McCoy, Wisconsin (2 MFEs)
- Joint Base McGuire-Dix-Lakehurst, New Jersey
- Fort Pickett, Virginia
- Holloman Air Force Base, New Mexico
- Camp Atterbury, Indiana



76,000+
Afghan guests served

The Exchange also operated a troop store and tent store at the Doña Ana Range Complex in southern New Mexico. In Kosovo, the Camp Bondsteel Exchange brought a twice-weekly rodeo, or temporary store, to guests staying at Camp Liya, as well as weekly barber and beauty service.

In October, some MFEs were replaced with more long-term “hard” sites—tent stores at Holloman AFB and JB MDL and an Express just for guests and supporting troops at Fort McCoy. The Exchange also brought local food trucks and concessionaires to most OAW locations.

Additionally, the Exchange brought a taste of home to military personnel deployed overseas in support of OAW, including troop-specific efforts such as:

- Deploying an MFE to Ramstein Air Base, Germany.
- Opening a barber shop and food truck at Rhine Ordnance Barracks, Germany.
- Reopening the Exchange at Camp As Sayliyah, Qatar, just four months after its initial closure.
- Boosting inventory at the Camp Bondsteel Exchange to support additional U.S. and NATO troops.
- Extending operating hours at the Camp Bondsteel Burger King and Subway to accommodate OAW-supporting personnel.

Expanding Career Opportunities

In July, just after crossing the finish line on its goal to hire 50,000 Veterans and military spouses, the Exchange set its sights on a new target: hiring 75,000 heroes by 2026.

Having walked in the shoes and marched in the boots of Exchange shoppers, Veterans and military spouses know firsthand how to meet the unique needs of Soldiers, Airmen, Guardians and their families. That’s why the Exchange offers rewarding careers to Veterans and spouses interested in joining the Exchange’s 126-year mission to serve those who serve.

In addition to competitive pay and benefits, the Exchange offers:

- Hiring preference to honorably discharged and disabled Veterans and military spouses.
- An associate transfer program that helps military spouses continue their Exchange careers when they PCS.
- The Veterans Retail Management Training program, which recruits Veterans for leadership roles at PXs and BXs worldwide.

“Having an initiative like this lets military families and Veterans know there’s a place for them within their community, no matter where they go. It definitely shows how much support the Exchange gives Veterans and military families.”

—Grand Forks Air Force Base Express Customer Experience Associate and Air Force spouse Caitlynn Kelly.



Air Force spouse Caitlynn Kelly, Grand Forks Air Force Base Express customer experience associate, brought the Army & Air Force Exchange Service across the finish line on its goal to hire 50,000 Veterans and military spouses when she was hired in July 2021.



On Map: The first MFE to deploy in support of Operation Allies Welcome arrived at Fort Lee—just four days after Exchange support was requested. Left: The Exchange served Afghan guests at the Doña Ana Range Complex. (U.S. Army photo by Pfc. Maxwell Bass, 24th Theater Public Affairs Support Element) Top Center: Shift Manager Rai Suk Bahadur, Shift Manager Mary Ann Rosita, General Manager Desiree Miller and Store Manager Emmanuel De Castro reopened the Camp As Sayliyah Exchange in Qatar on Sept. 4. Bottom Center: Associates John McGhee, Silvia Stoudemire and Ray Stewart returned from retirement to serve during OAW. Right: McGregor Range Exchange Troop Store Laborer Aaron Simpson helped set up Doña Ana troop store.

53,000+
Veterans and military spouses
hired since 2013

45.6%
of the U.S. workforce is composed of Veterans
or military spouses or family members

1,900+
Wounded Warriors
hired since 2010

43,639
military spouses

10,226
Veterans

10%
are Veterans

21%
are military
spouses

14%
are military
family
members

85%
of associates share
a connection to
the military

**all figures as of year-end FY 2021*

STRENGTHENING THE BENEFIT

Bringing a Name-Brand Revolution to Express Gas Stations; Delivering Nourishing Meals to Military Families



Branded Fuel

The Exchange launched high-quality branded fuel at Express gas stations in November, when Fort Hood's Clear Creek Express became the first to dispense Valero-branded fuel.



Branded fuel is coming to more than 180 CONUS Express gas stations, which will dispense Valero-, BP/Amoco- and Marathon-branded fuel. The Expresses are receiving signing and canopies identical to the brands' gas stations outside the gate.



Valero and Marathon fuel are TOP TIER™-certified, while all grades of BP/Amoco gasoline with Invigorate® not only meet but exceed industry-leading formulation specifications.



Branded fuel improves the Exchange's already-secure supply chain, enhancing the Exchange's support of military communities during emergencies and natural disasters. Fuel pricing follows the same process Expresses have long relied on to ensure competitiveness.



DoorDash Meal Delivery

The Exchange made it easy for Soldiers, Airmen, Guardians and their families to get food delivered with the rollout of DoorDash to several installations in 2021.

Restaurants at the Fort Hood Exchange were the first to offer delivery through the popular app. By the year's end, nearly 40 Exchanges in CONUS, Alaska and Hawaii had launched the service. Bringing DoorDash to installations strengthens Quality-of-Life for military communities, offering convenience to busy service members and their families.

DoorDash By the Numbers:

39
installations

291
Exchange restaurants

388,832
orders placed



Left: BP/Amoco-branded fuel launched at Fort Bragg gas stations in January, starting with the Pines Express. Right: Exchange General Manager Mikel Hunter, Exchange Pacific Regional Vice President; Theresa LaCamera, wife of U.S. Forces Korea Commander Gen. Paul LaCamera; Nick DeVincenzo, Exchange Pacific Regional Distribution Center Manager; and Mr. Chon, Chunho, Korea Distribution Center Manager. Center: From left, receiver Alicia Wilson and Materials Handler Profile Leader Catherine Porter checked merchandise into the DDDC using the JDA warehouse management system. Bottom: Phase one of the Logistics Autonomous Robotic Initiative launched at DDDC. Pictured, Chief Information Officer Chad Lucas got some firsthand experience with the new system.

Picking Up the Pace with Logistics

The Exchange continued to streamline its Logistics operations to deliver the goods that military shoppers need faster and more efficiently.

On November 19, the Exchange unveiled the new Korea Distribution Center and bakery at U.S. Army Garrison Humphreys. The 255,800-square-foot facility, which serves Exchanges throughout the Pacific, replaced the distribution center and bakery at Camp Market, which operated out of a complex of nine buildings—some of which dated back to the 1930s—for more than 45 years.

On December 6, the Dan Daniel Distribution Center (DDDC) kicked off the Logistics Autonomous Robotic Initiative, bringing 56 robots to DDDC to assist warehouse associates with order fulfillment. By the end of its first two months, the initiative had realized a 27% reduction in direct labor minutes. With additional phases coming in 2022, productivity for distribution center associates is expected to more than double, with a with a projected five-year savings of \$5 million.



KOREA DISTRIBUTION CENTER BY THE NUMBERS

255,800 square feet of warehouse storage space

159 Exchange facilities served in South Korea

47 facilities served in Japan, Okinawa, Guam, Kwajalein Atoll and American Samoa

174 associates

\$15.5M in inventory

2.6M cases delivered annually

131 containers handled monthly

31% reduction in travel distances compared to Camp Market

\$225,000 in transportation cost savings over five years

25,000 square feet of bakery space

10 national-brand bakery licenses

**all figures as of year-end FY 2021*

Top: The Exchange and Eighth Army command cut the ribbon on the Korea Distribution Center and bakery. From left, Command Sgt. Maj. Robert Cobb, Eighth Army Senior Enlisted Advisor; Ann Yi, USAG Humphreys Exchange General Manager; Lt. Gen. Willard Burleson, Eighth Army Commanding General; Scott Bonner, Exchange Pacific Regional Vice President; Theresa LaCamera, wife of U.S. Forces Korea Commander Gen. Paul LaCamera; Nick DeVincenzo, Exchange Pacific Regional Distribution Center Manager; and Mr. Chon, Chunho, Korea Distribution Center Manager. Center: From left, receiver Alicia Wilson and Materials Handler Profile Leader Catherine Porter checked merchandise into the DDDC using the JDA warehouse management system. Bottom: Phase one of the Logistics Autonomous Robotic Initiative launched at DDDC. Pictured, Chief Information Officer Chad Lucas got some firsthand experience with the new system.

STRENGTHENING THE BENEFIT

Working Smarter, Moving Faster

Efficiencies Improve Service in Stores and at ShopMyExchange.com

ShopMyExchange.com Enhancements



In February, a new order management system launched for ShopMyExchange.com, featuring enhanced picking for ship-from-store and buy online, pickup in store orders; state-of-the-art-fulfillment engine; and robust infrastructure to support future growth.

A new back-office system for drop-ship—shipping items directly from a supplier’s warehouse instead of an Exchange distribution center—was introduced in November. The commerce platform expands the number of items that military shoppers want, improving their online shopping experience.

ShopMyExchange.com’s new order management system

2M+ orders | **7.7M** units | **\$823K** fulfillment cost savings



A new online order management system, launched in February, enhances picking capabilities for buy online, pickup in store orders placed at ShopMyExchange.com.

Also in November, ShopMyExchange.com launched e-gift cards, enabling the Exchange to deliver digital gift cards, including those from national restaurant brands, digital entertainment providers and more, to shoppers within 30 minutes of purchase.

Going green

The Exchange also continued to replace fluorescent lights with more efficient tubular LEDs (T-LEDs). In addition to improving the shopping experience by providing uniform light levels and colors, the lighting saves electricity, lowers carbon emissions and produces less heat, reducing cooling costs during the summer.

T-LED Replacement

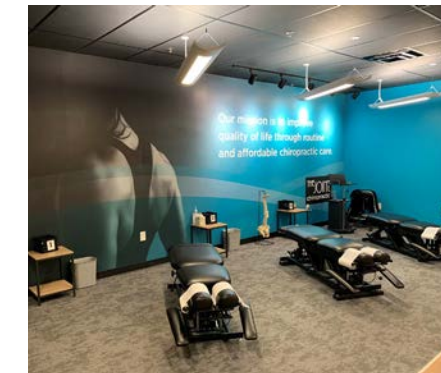
500K fluorescent lights	160+ CONUS locations	720 buildings	\$3.2M projected annual electricity cost savings	51M projected annual kilowatt hours saved
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Supporting Health and Wellness

The Exchange expanded its health and wellness offerings, opening its first chiropractic clinic from national brand The Joint at Luke Air Force Base in January 2022. The clinic joins 265 other health and wellness locations at PXs and BXs worldwide.

Exchange Health and Wellness Openings in 2021:

- 10 durable medical equipment shops
- 7 dental offices
- 2 chiropractic offices



Top Left: The Exchange opened its first chiropractic clinic at Luke Air Force Base. Top Right: Celebrity guest Vivica A. Fox helped Fort Buchanan Garrison Commander Col. Tomika M. Seaberry and founder and CEO of DOCS Health, Dr. Lawrence Caplin, celebrate the opening of DOCS Dental at the PXtra. Left: Janz Medical Supply opened at the MacDill Air Force Base Exchange April 14. Pictured from left, Col. Jason Loschinsky, 6th Mission Support Group Commander; John Endres, partner and executive vice president of the Janz Corp. and Janz Medical Supply; Col. Josef Doenges, Chief of Medical Staff at MacDill AFB; and Exchange General Manager James Clark. Right: A selection of CPAP machines available at the Camp Foster Exchange’s Janz Medical Supply shop. Bottom Left: The Fort Hood Clear Creek Exchange Vista Optical shop. Bottom Right: The Exchange has offered vision care since 1985. Pictured, the Fort Hood Clear Creek Exchange Vista Optical shop.

1.2M patients seen

265 health and wellness locations

141 optical shops and optometry clinics

29 durable medical equipment shops

76 nutrition centers

13 dental offices

2 cryotherapy centers

2 chiropractic clinics

STRENGTHENING THE BENEFIT

Better-for-You Dining

As a partner in the Office of the Secretary of Defense's Operation Live Well initiative, the Exchange nourishes service members and their families with better-for-you options at all of its 1,600+ restaurants. In October, the Exchange added Panera Bread to the portfolio with the restaurant's opening at Fort Campbell, Kentucky, the fast-casual chain's first location on an Army, Air Force or Space Force installation.

The Exchange leaned forward to deliver healthy dining options from in-demand brands, opening more than 50 restaurants worldwide. More than 60% of openings were from better-for-you brands, marking the sixth year in a row that more than half of new Exchange restaurants were healthy name brands.

Exchange Restaurants Opened in 2021:



... and more!



Top Left: Fort Campbell Soldiers and families lined up for the grand opening of the Exchange's first Panera Bread location. Bottom Left: Exchange General Manager Eric Desveaux; Garrison Command Sgt. Maj. James House; Tropical Smoothie Café franchise owner Howard Raphael; and Garrison Commander Col. Karin Watson cut the ribbon on Fort Lee's Tropical Smoothie Café, one of five opened by the Exchange in 2021. Right: The first customers in line for Bun-D at the Fort Drum Exchange left with rice bowls and smoothies after the restaurant's grand opening. (Photo by Mike Strasser, Fort Drum Garrison Public Affairs)

Quick-Serve Restaurants

The Exchange significantly improved the experience for diners on the go with hot, high-quality food at Express convenience stores. The Exchange opened 15 new quick-serve restaurants at Expresses worldwide, including its first Eddie Peppers, offering Mexican cuisine, at the III Corps Express on Fort Hood, Texas. The Exchange's other quick-serve brands continued to expand, with 10 Hunt Brothers Pizza locations, three J. Walken Chicken restaurants and an additional Chopz location opening throughout the year.



Top Left: Hunt Brothers Pizza offers fresh, hot pizza in a convenient, grab-and-go environment. Pictured, a Soldier picked up a grab-and-go pizza slice at Fort Hood's III Corps Express. Top Right: A Tinker Air Force Base shopper chooses from a selection of fresh, hot grab-and-go pizza slices after the grand opening of Hunt Brothers Pizza at Tinker AFB's Express I on Jan. 6, 2022. Bottom: Charles Sciascia, Director of Business Operations – Military, Orion Food Systems; Jessica Hall, Store Manager, III Corps Express; Edna Cofield, Retail Business Manager, Fort Hood Exchange; and Chris Haefner, General Manager, Fort Hood Exchange, cut the ribbon on the Exchange's first Eddie Peppers at the III Corps Express on Fort Hood.

“The joint service members who work here ... are very dedicated to the United Nations Command and U.S. Forces Korea missions, and many prefer not to leave the building in order to grab something to eat. Having a healthy choice like Bun-D is important because it provides the staff a convenient as well as healthy choice to refuel and get back to work.”

–U.S. Forces Korea Headquarters Commandant Army Lt. Col. Nicholas Williams, at the June 14 grand opening of Bun-D at the UNC and USFK headquarters.

STRENGTHENING THE BENEFIT

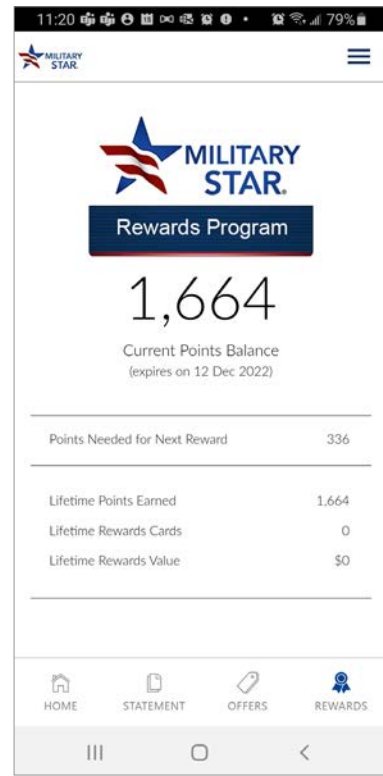
Enhancing the Exchange Credit Program

The **MILITARY STAR®** card, an affordable credit solution administered by the Exchange Credit Program (ECP), began delivering rewards cards digitally via email in late 2021. Digital distribution allows faster access to valuable rewards and enables usage from mobile devices. Cardholders earn rewards points on **MILITARY STAR®** purchases and receive a \$20 reward every 2,000 points.

ECP also strengthened customer protections, reducing fraud losses by \$10 million. The program revamped identity validation queries, implemented a daily review of all new applications processed on MyECP.com to better identify fraud, and enhanced monitoring to identify unusual account activity. These efforts realized a 49% improvement in external bank chargebacks compared to 2020 and a 93% improvement in fraud write-offs.

Remote work opportunities continued to expand for customer contact center agents living near military installations. In 2021, ECP identified 12 additional installations for remote recruiting for a total of 27 installations and 43 virtual agents.

Also in 2021, the program reduced expenses through electronic statement enrollment campaigns, continued special payment programs for customers impacted by COVID-19 and implemented a new **MILITARY STAR®** account signup prompt for non-cardholders checking out at ShopMyExchange.com.



CUSTOMER SAVINGS BY THE NUMBERS

- \$281.6M** from one low APR for all cardholders, regardless of credit score
- \$34.4M** in personal dividends through the rewards program
- \$19.2M** from 0% interest financing offers and never charging “back interest” after promotions
- \$17.6M** from never charging late fees
- \$8.1M** through the 10% first-day discount
- \$7.4M** from the interest-free military clothing plan
- \$4M** at Exchange restaurants with the everyday 10% food discount
- \$3.1M** at the pump, where cardholders save 5 cents on every gallon of fuel at Exchange gas stations and at participating MCX and NEX fuel locations
- \$1.4M** on shipping at ShopMyExchange.com and myNavyExchange.com, where every **MILITARY STAR®** purchase qualifies for free standard shipping
- \$800K** with the reduced-interest deployment policy

\$408 MILLION IN VALUE GENERATED FOR THE MILITARY COMMUNITY

**all figures as of year-end FY 2021*

“I’ve absolutely loved this program. In the past 22 years, I’ve moved 16 times with the Army, and before the Exchange, I had to quit my job every move. Now I pack up my equipment when I move, set it up as soon as I have internet at my new place and keep working without losing tenure.”

—Shelly Thomas, a virtual customer contact center agent living near Fort Hood and the wife of an Army master sergeant



In addition to rewards and everyday benefits, the **MILITARY STAR®** card gives shoppers the chance to win big in cardholder-exclusive sweepstakes. Redstone Arsenal Exchange General Manager Sheila Enderle (left) and Main Store Manager Chantel Scott (right) presented retired Army 1st Sgt. Thomas Tucker with the grand prize in the **MILITARY STAR®** Home for the Holidays sweepstakes at the Redstone Exchange. Tucker was automatically entered after using his card twice at a military exchange and twice at a commissary. Also pictured: Tucker’s wife, Stephanie, and their granddaughter, Azaria Pearl.

STRENGTHENING THE BENEFIT

Growing Through Strategic Partnerships

In partnership with the Army, the Exchange continued to improve the Digital Garrison mobile app, a one-stop information source for Army communities. Features introduced in 2021 include curbside pickup for commissary orders, a price checker for Exchange merchandise, coupons and Express deals, and data integration with Installation Management Command to ensure post information is up to date.

The military exchanges and Defense Commissary Agency's joint buying alliance entered its third year. The alliance's buying power enabled the resale community to offer lower prices and negotiate vendor markdowns on products, keeping military communities' tax-free shopping benefit strong.



On Veterans Day, the military resale community joined forces for the second annual In Recognition Of event, presenting challenge coins to our Nation's heroes at all military exchanges and commissaries. The coins feature an eagle on one side and emblems for all six military branches on the other.



Sgt. Maj. Lemakius Gardner, senior enlisted advisor for Exchange Europe/Southwest Asia/Africa Region, presented a challenge coin to Don Collins, a retired Marine Master Sergeant and combat photographer, and other Veterans who attended the In Recognition Of Veterans Day event at the Kaiserslautern Military Community Exchange at Ramstein Air Base, Germany.

"[The Exchange] helps the families a lot and supplies them with everything they need for their homes, especially when you serve or live overseas. They really provide that needed peace of mind when we are away from home and fighting for our country."

—Retired Gunnery Sgt. John Wilson, recipient of an In Recognition Of challenge coin at the Camp Foster Exchange

The Exchange's partnership with Army Emergency Relief (AER) and the Air Force Assistance Fund (AFAF) continued, with shoppers donating nearly \$2 million to the relief funds at the register in PXs and BXs and online at ShopMyExchange.com—a total of \$5.1 million since the partnership began in 2017. The funds provide financial assistance, sponsor educational scholarship grants for military family members and offer community programs to make life better for service members and their families.



A Piece of Home Through Movies

The Exchange launched a new program to provide movies to installations not located near a theater. Installations that officially request the service and are approved will receive a SIM card with 16 movies and a player. Movies can be downloaded from the SIM card to the player, which can hold up to 100 titles.

Building Business-to-Business Alliances

The Exchange helped Air Force and Marine Corps child development centers worldwide procure books in support of Early Learning Matters, a school readiness-focused curriculum developed by Purdue University.

Early Learning Matters Curriculum Program (Child Development Centers)

240,000
books shipped

101
Air Force and Marine Corps child development centers worldwide

\$2.3M
in sales

Department of Defense Education Activity COVID-19 Test and PPE Procurement

The Exchange served as a procurement source for COVID-19 test kits and personal protective equipment for Department of Defense Education Activity schools and district offices worldwide.

16,000 COVID-19 test kits shipped for teacher and staff testing

\$3.3M in personal protective equipment (PPE) shipped

31 schools received test kits procured through the Exchange

172 schools and district offices received disinfectant wipes, hand sanitizer, gowns, masks, thermometers, gloves and other PPE through the Exchange's partnership since the pandemic started in 2020

“The Exchange at Fort McCoy does an amazing job every day supporting our workforce. Over the past year, during the pandemic, their efforts have been especially notable. Because of specific pandemic measures, we’ve been able to continue training here at Fort McCoy in a safe and effective manner.”

–Fort McCoy Garrison
Commander Col. Michael Poss



From left: Angie Encarnacion, Fort Buchanan Exchange Visual Merchandising assistant; Sherita Jackson, Command Senior Chief, USS Wichita; and Jessica Rosado, Fort Buchanan Visual Merchandising manager made the roughly 90-minute drive from Fort Buchanan to Ponce, Puerto Rico, to deliver about 50 personal orders to USS Wichita Sailors who could not leave their ship because of COVID-19 protocols.

Going Above and Beyond During a Pandemic

As COVID-19 cases fell and Health Protection Condition levels decreased in the first part of 2021, many military communities got their first taste of normalcy.

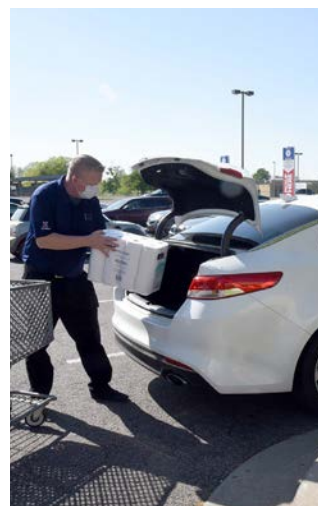
As foot traffic in PXs and BXs increased, the Exchange continued to put the health and safety of military shoppers first, offering services such as curbside pickup and buy online, pickup in store, while maintaining sanitation and physical distancing protocols.

For the second holiday season in a row, the Exchange offered 12 Weeks of Black Friday deals, starting in September to minimize in-store crowds.

Exchanges and associates often went above and beyond in serving those who serve during the pandemic’s second year:

- At Fort McCoy, Wisconsin, a Total Force Training Center that hosts more than 150,000 outside military personnel for training every year, many units had to be quarantined for 14 days when they arrived. To serve the quarantined troops, the McCoy PX would reopen after the close of normal business, ensuring COVID protocols were observed.
- When a January 2022 surge in cases paused in-person classes for three days at Netzaberg Elementary School in Grafenwoehr, Germany, the Exchange’s overseas school meal program provided 1,255 grab-and-go breakfasts and lunches on short notice.

The Exchange’s overseas school meal program provided **4,262,210** grab-and-go breakfast and lunches during FY2021



Brandon Swaller, customer service supervisor, loaded a customer’s order at the Tinker Exchange’s new curbside pickup area. (U.S. Air Force photo/Kelly White)



Leaders from General Leonard Wood Army Community Hospital and the Fort Leonard Wood PX celebrated the opening of a new COVID-19 vaccination clinic.

Weathering the Storm

Disaster hit home in February, when a record-breaking winter storm brought single-digit temperatures to the Exchange’s headquarters in Dallas.

Burst pipes in the north building led to catastrophic flooding on the first and second floors that threatened the IT data center—the heartbeat of the Exchange—and other mission-critical areas. IT and Real Estate teams worked nonstop to protect the data center, sweeping water away from critical equipment and ensuring business continued to run smoothly.

This is just one example of the Exchange’s legacy of support during natural disasters. During the past 10 years, the Exchange responded during Superstorm Sandy (2012), Hurricane Harvey (2017) and destructive earthquakes in Alaska (2018) and Puerto Rico (2020).

Other 2021 examples of resiliency during emergencies:

- When Hurricane Ida struck the Gulf Coast in late August, local Exchanges were prepared. Weather conditions and road closures forced the Keesler Air Force Base Exchange in Mississippi to close for two days, but associates and the general manager remained in contact to ensure everyone was safe. The storm missed Fort Polk, Louisiana, but the HQ fuel team, Disaster Support Group and Merchandising and Logistics directorates made sure the store had emergency supplies, including a freezer trailer provided by Logistics in case of a power outage.
- When the Camp Butmir Exchange in Bosnia flooded after a heavy rainfall in December, associates jumped into action, removing shelves and merchandise, clearing out mud, pumping water out of the store and placing sandbags at the door to prevent further flooding. IT pitched in to get the store’s systems back online and, within three days, the Exchange was back up and running.
- When high winds in December caused damage and power failures at Exchanges in Colorado, Nebraska and Kansas, associates protected customers by closing stores but reopened as soon as they could.



IT associates Ric Murphy, Cody Van Haften, David Drake and Shinobu Agarie connected computers after a winter storm hit Exchange headquarters the week of Feb. 15

“These teammates epitomized selfless service and quickly got us back in business. IT and RE put the broader team first and all of us are deeply appreciative of what they did to keep us safe. We are so grateful.”

–Director/CEO Tom Shull, on the Information Technology and Real Estate associates who worked together to save the Exchange’s data center when burst pipes threatened to flood it during a winter storm

Providing Support During the Worst Weather

A 10-YEAR OVERVIEW

2016 Joint Base Elmendorf-Richardson, Alaska



2021 Laughlin AFB, Del Rio, Texas



2017 Camp Mabry, Texas



2017 Camp Swift and Corpus Christi, Texas



2020 Emergency supplies delivered to Exchanges and Expresses from Florida to Virginia



2017 Fort Lee, Virginia



2012 Bennett Field, N.Y.

2020 Soto Cano Air Base, Honduras



2017 Fort Buchanan, Puerto Rico



2012

Superstorm Sandy: Hanscom Air Force Base, Massachusetts; Fort Hamilton, U.S. Military Academy, Floyd Bennett Field and Camp Smith, New York; Fort Dix, New Jersey; Fort Indian Gap, Pennsylvania; Joint Base Langley-Eustis (JBLE), Virginia. Stores affected by the storm; support provided to National Guard and FEMA personnel and other rescue efforts. Support included deploying mobile field Exchanges (MFEs) to Fort Dix, Floyd Bennett Field and Camp Smith.

2017

- **Hurricane Irma:** Fort Buchanan, Puerto Rico. Exchange opened gas stations and restaurants by midmorning just one day after the Category 5 storm made landfall.
- **Hurricane Maria:** Fort Buchanan. Fuel pumps damaged; 30 associates report to work two days after the storm to clean up and expedite reopening. Two MFEs were deployed to support troops.
- **Hurricane Harvey:** Ellington Field, Texas. Mobile field Exchanges served Texas State Guard troops at Camp Swift and Corpus Christi, with Joint Base San Antonio-Lackland, Camp Mabry and Ellington Field Exchanges and Waco Distribution Center supporting.

2019

- **Hurricane Dorian:** Fort Buchanan and Camp Santiago, Puerto Rico; JBLE; Fort Bragg; JB Charleston; Fort Jackson; Shaw AFB; Fort Stewart and Hunter Army Airfield, Georgia; Patrick AFB and Homestead Air Reserve Base, Florida. Several stores closed during the storm but had fuel and water available before and afterward.
- **Typhoon Lingling:** Korea Distribution Center, Camp Market. Severe roof damage; one-third of the building's freezer space was destroyed.

2016

Hurricane Matthew: JBLE; Fort Stewart, Georgia; Fort Jackson and Joint Base Charleston, South Carolina; Patrick AFB, Florida. Stores suffered minimal damage and, with support from Dan Daniel Distribution Center in Newport News, Virginia, ensured food and fuel was available as soon as storm passed.

2018

- **Hurricane Florence:** Fort Bragg and Seymour Johnson AFB, North Carolina; Joint Base Charleston, Fort Jackson and Shaw AFB, South Carolina; JBLE and Fort Lee, Virginia. Fort Bragg's South Post Exchange shopping center sustained flood damage. Multiple directorates worked together to ensure food and emergency supplies were available.
- **Hurricane Michael:** Tyndall AFB, Florida. A mobile field Exchange served the community while the BX was closed for repairs for six weeks. Fuel at the Express was running within a week of the storm—the only fuel point in the area for several months. Burger King and the Felix Lake Express were destroyed and permanently closed.
- **Typhoon Trami:** Kadena Air Base and Camp Courtney, Okinawa, Japan; Japan Distribution Center, Yokota Air Base, Japan. Minor damage to stores; damage to roof over cold storage unit at the DC.
- **Earthquake:** Joint Base Elmendorf-Richardson, Alaska. Extensive damage to barber shop and GameStop. Active-duty troops helped with cleanup.

2020

- **Earthquake:** Fort Buchanan, Camp Santiago and Puerto Rico Distribution Center. No damage to stores; associates returned to stores to serve customers the day the quake struck.
- **Hurricane Zeta:** Minor damage at Keesler AFB, Mississippi; Fort Rucker and Maxwell AFB, Alabama. Power outages at stores on Camp McClellan, Alabama and Camp Merrill, Georgia.
- **Hurricane/Tropical Storm Eta:** Minor flooding at Exchange at MacDill AFB, Florida. Minor damage at Soto Cano Air Base, Honduras.
- **Hurricane Laura:** Fort Polk, Louisiana. Structural and water damage to Exchange.

2021

- **Winter Storm Uri:** Burst pipes caused flooding at Exchange headquarters in Dallas. Burst water mains and pipes led to a water emergency at the Barksdale AFB BX in Louisiana and a water shortage at Fort Hood, Texas. Despite closing because of the storm, the Waco Distribution Center delivered 18 pallets of water to Barksdale and 16 to Fort Hood. Burst pipes also caused water damage at stores and Expresses at Joint Base San Antonio-Fort Sam Houston, Camp Mabry and Ellington AFB, Texas; and Altus AFB, Tinker AFB and Fort Sill, Oklahoma.
- **Hurricane/Tropical Storm Ida:** Minimal damage at Keesler AFB and MacDill AFB, Florida.
- **High winds/tornado warnings:** Wind damage and power outages at stores in Fort Riley, Kansas; and Fort Carson, Colorado; temporary store closure at Offutt AFB, Nebraska.

Reinvesting in the Shopping Experience

New and Renovated PXs, BXs Boost the Benefit

The Exchange's construction and renovation projects improve the Quality of Life for those who live and work at military installations. The Exchange—not taxpayers—funds the majority of its projects.

In 2021, the Exchange built or renovated 21 stores, with \$195 million in installation-level capital investments (over multiple years). Among the major projects was a \$54 million, 210,000-square-foot shopping center with a main PX, mall and food court at Joint Base San Antonio-Fort Sam Houston—the post's first new shopping center in 50 years.

In July, a \$13.2 million, 85,250-square-foot renovated shopping center opened at U.S. Army Garrison Italy in Vicenza, Italy. The renovation, a joint project among the Exchange, Army and Department of Public Works, is the largest investment the Exchange has made in Vicenza.

At Joint Base Lewis-McChord, a \$70 million renovation of the Fort Lewis Exchange was completed in late 2021. The project expanded the shopping center from 173,000 to 280,000 square feet.

In addition, the final phase of a \$14.1 million project at Robins Air Force Base was completed in September with the opening of Starbucks. The project includes a new Express that opened in 2020 as well as a Firestone Complete Auto Care center.

Other projects completed during 2021 include:

A \$9.8 million upgrade to the Luke Air Force Base Exchange, the 45-year-old facility's first renovation since 2007.

A \$9.3 million upgrade to the Goodfellow Air Base Exchange shopping center.

A \$5.4 million renovation of the Fort Knox PX—its first update since 2014—including an improved layout and 3,000 additional square feet.

"I was an Air Force brat, and now, having served 28 years, the Exchanges have always felt like home. This Exchange is the most beautiful I've seen in all my years. It's just absolutely gorgeous. To everyone that made this happen, thank you."

—Brig. Gen. Caroline Miller, Commander, 502nd Air Base Wing and Joint Base San Antonio, Air Education and Training Command, Joint Base San Antonio-Fort Sam Houston, at the grand opening of the JBSA-Fort Sam Houston Exchange



Top: The JBSA-Fort Sam Houston shopping center opened in April. Left: The Fort Knox PX added 3,000 square feet of sales-floor space in 2021. Center: Pozzuolo Del Friuli, Italian cavalry brigade military band members, heralded the grand reopening of the Vicenza Exchange shopping center. (U.S. Army photo by Sgt. 1st Class Taresha Hill) Right: Recognizing that Goodfellow AFB is a training base, the BE FIT selection was expanded as part of the first major renovations to the BX in 30 years.

Expanding the Benefit

Welcoming 575,000 New Shoppers

After a change in Department of Defense policy, 575,000 DoD and Coast Guard civilian employees and retirees became eligible to shop at the Exchange. In-store shopping began May 1, and online shopping at ShopMyExchange.com started in October. This was the third expansion since 2017, nearly tripling the eligible shopping base during the past five years.



MAY 2021

Department of Defense and Coast Guard civilians were granted access to tax-free shopping in stores. In October, they received access to ShopMyExchange.com as well.

JAN 1991

Commissary, Exchange and MWR privileges were extended to Guard and Reserve members.

NOV 2017

18.5 million Soldiers, Airmen, Marines, Sailors and Coast Guard members who served with honor were granted online shopping benefits.

JAN 2020

4.1 million disabled Veterans, Purple Heart recipients and certain caregivers became eligible for in-store shopping at the Exchange.

Exchange's Inaugural Quality-of-Life Force Multiplier Award

Robert "Bud" McFarlane

At college football's most storied rivalry, the Exchange forged a new path to honoring heroes by awarding former U.S. National Security Advisor Robert "Bud" McFarlane its inaugural Quality-of-Life Force Multiplier Award.

The award, which was presented on-field at the 122nd Army-Navy Game, honors those who have made significant contributions to Warfighters and their families.

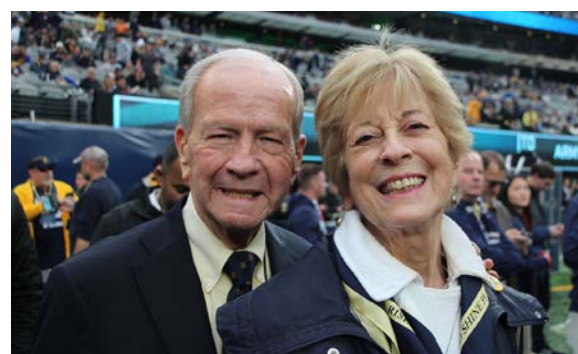
A Naval Academy graduate, Marine, combat veteran, White House Fellow, respected diplomat and Cold War strategist, McFarlane advocated for extending a lifelong online shopping benefit to honorably discharged Veterans at ShopMyExchange.com. The benefit launched on Veterans Day 2017, welcoming Veterans home with tax-free online shopping and military-exclusive pricing.

"And every place you've served, you made life better not only for our troops, who led you, because you inspired them," McFarlane said of the Exchange after receiving the award. "It's because everybody back home—family, kids, wives, children—are inspired. You're the same thing for our country. God bless you, every one of you."

The Exchange has been a participating partner of the Army-Navy Game since 2018.

"Bud has always answered our Nation's call. The Exchange salutes Bud's many contributions to the security of all Americans."

—Director/CEO Tom Shull



Top: Exchange Director/CEO Tom Shull presented former U.S. National Security Advisor Robert "Bud" McFarlane with the Exchange's inaugural Quality-of-Life Force Multiplier Award at the 122nd Army-Navy Game. Middle: from left, McFarlane's wife, Jonny; McFarlane; Shull; and Exchange Senior Enlisted Advisor Air Force Chief Master Sgt. Kevin Osby. Bottom: Bud and Jonny McFarlane.

IN MEMORY OF
ROBERT C. "BUD" McFARLANE,
1937-2022

Advocating for Those Who Serve

Industry Accolades and Recognitions

Customer Satisfaction Index: **Scored 90 out of 100**, leading industry by 29 points

Ranked 54th
of Top 100 Retailers
NRF NATIONAL RETAIL FEDERATION
(up from No. 61 in 2020)

EY
CYBERSECURITY ASSESSMENT
Led government in all 23 categories
Led similar-sized retails in 22 of 23 categories
Led the financial industry in 19 of 23 categories

STANDARD & POOR'S
AA-/A-1+
2021 Rating
(long term/short term) with a stable outlook (third-highest-rated retailer behind only Amazon and Walmart)

Military Times
Best for Vets: Employer
(8th year in a row)

50 Best Companies for Latinas
(14th year in a row)
LATINA Style 50

MILITARY FRIENDLY 2022
MILITARY FRIENDLY 2022 SILVER EMPLOYER
VIQORY (publisher of G.I. Jobs and Military Spouse Magazines):
Military Friendly® Employer and Military Friendly® Spouse Employer
(12th and 10th years respectively)

U.S. VETERANS MAGAZINE
Best of the Best list
(8th year in a row)

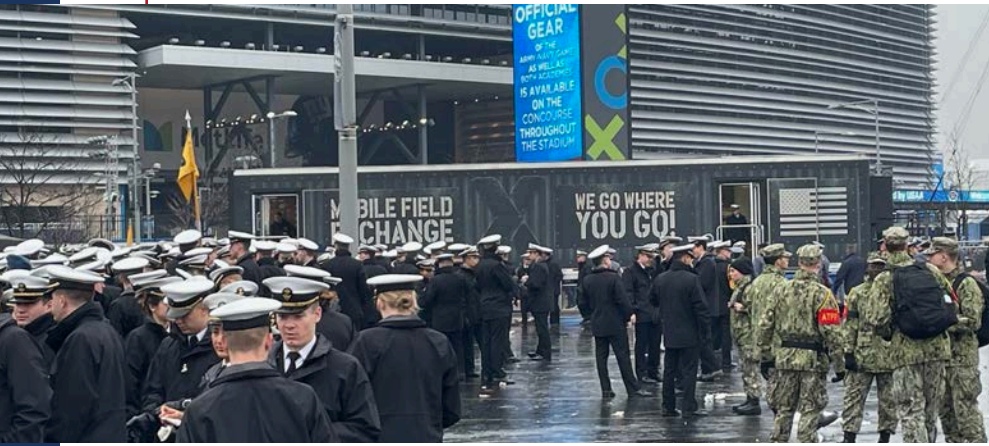
Associate Engagement and Job Satisfaction Survey:
Associates rated the Exchange 80 out of 100, leading civilian retailers by 21 points

VETS Indexes
BASED ON PRIDE, BUILT ON INTEGRITY*
2021 4-Star Employer

PR NEWS AWARDS
2021 Digital + Social Media **Honorable Mention** Community Engagement Category



2021 The Exchange Benefit in Action



Top Left: For the fourth year, the Exchange was a participating partner in the Army-Navy Game, bringing a mobile field Exchange to the event to share relevancy. *Top Right:* The military community's youngest heroes were honored Month of the Military Child with events such as the Davis-Monthan AFB BX's Curbside Salute to Kids. *Center Left:* Exchange Director/CEO Tom Shull, U.S. Military Academy Class of 1973, received the 2021 Distinguished Graduate Award on Sept. 11 at West Point. He was honored by USMA leadership alongside fellow 2021 Distinguished Graduates. From left: the Honorable Michael Wynne; Col.(R) Randall Pais; Shull; Command Sgt. Maj. Ken Killingsworth, U.S. Corps of Cadets, West Point; Brig. Gen. Mark Quander, 79th Commandant, U.S. Corps of Cadets; Lt. Gen.(R) Joe DeFrancisco, chair, West Point Association of Graduates; Gen.(R) Stanley McChrystal; Gen.(R) David Rodriguez; and Lt. Gen.(R) H.R. McMaster Jr. *Center Right:* Mateo Rojas, the grand-prize winner of the Exchange's You Made the Grade sweepstakes, received a \$2,000 gift card at the Travis Air Force Base BX. *Bottom Left:* Retired Sgt. 1st Class Anna Merryman received a grand prize in the **MILITARY STAR**® Your Holiday Bill Is on Us sweepstakes at the Fort Huachuca Exchange. Since the sweepstakes began, **MILITARY STAR**® has paid off more than \$320,000 in balances. Also pictured: Fort Huachuca Garrison Commander Col. Jerrod Moreland and Exchange General Manager Jeff Hyatt. *Bottom Center:* Soldiers in Advanced Individual Training with Bravo Company, 58th Transportation Battalion, participated in a workout with Exchange BE FIT ambassador Roy Montez at the Fort Leonard Wood PX. *Bottom Right:* Keesler Air Force Base BX Store Manager Sandra Jefferson assisted an Airman with wreath preparation. On Military Day, Dec. 4, volunteers are invited to the BX to prepare for Wreaths for Biloxi National Cemetery, an annual tribute to the fallen.

Top Left: With an hour's notice, associate Jessica Mack (at cash register) and Kuwait/Jordan Exchange General Manager Robert Baker set up a temporary store for Marines who landed in Kuwait after leaving Afghanistan. *Top Right:* The Joint Base San Antonio-Lackland Exchange opened early to accommodate 2,600 Air Force basic trainees, who were given a rare break from their rigorous schedule to shop for holiday gifts. *Center Left:* On National Vietnam War Veterans Day, Exchanges worldwide presented lapel pins to Vietnam Veterans. Pictured: From left, Osan Air Base BX teammates Ms. Chae, Hye-chong; Ms. Kim, Cha-kyong; and Boris Nasci; and Ernest Lee, Community Activity chair. *Bottom Left:* This photo of an Express canopy at the Eielson Air Force Base BX was shot in January when it was 47 below zero. It became the most-liked photo on the Exchange's Instagram page, illustrating the power of authenticity in social media. *Bottom Center:* Senior Airman Quynn Santjer, unit deployment manager for the 94th Fighter Squadron, browsed maternity uniforms at the Langley Air Force Base Military Clothing store. (U.S. Air Force Photo by Staff Sgt. Jaylen Molden) *Bottom Right:* West Point Cadet Zachary Hall completed a two-week Exchange internship in July at the U.S. Military Academy PX. He worked with HR, researching how to improve internal recruiting for deployment.

FINANCIAL STATEMENTS

Army and Air Force Exchange Service
Years Ended January 29, 2022 and January 30, 2021
With Reports of Independent Auditors

Ernst & Young LLP



Army and Air Force Exchange Service

Financial Statements

Years Ended January 29, 2022 and January 30, 2021

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Report of Independent Auditors

The Board of Directors
Army and Air Force Exchange Service
Departments of the Army and Air Force

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Army and Air Force Exchange Service (the Exchange), which comprise the balance sheets as of January 29, 2022 and January 30, 2021, and the related statements of earnings, comprehensive income, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Exchange at January 29, 2022 and January 30, 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Exchange and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Exchange’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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange’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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2022, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.



May 24, 2022

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and The Board of Directors
Army and Air Force Exchange Service
Departments of the Army and Air Force

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Army and Air Force Exchange Service, which comprise the balance sheet as of January 29, 2022, and the related statements of earnings, comprehensive income, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Army and Air Force Exchange Service's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Army and Air Force Exchange Service's internal control. Accordingly, we do not express an opinion on the effectiveness of Army and Air Force Exchange Service's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

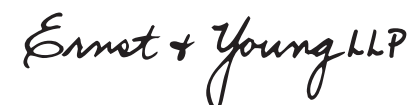
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Army and Air Force Exchange Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 24, 2022

Army and Air Force Exchange Service

Balance Sheets

(Dollars in Thousands, Unless Otherwise Noted)

	January 29, 2022	January 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 136,616	\$ 241,245
Trade and other accounts receivable, less allowance for uncollectible accounts of \$28,144 and \$28,357 at January 29, 2022 and January 30, 2021, respectively	2,396,558	2,507,536
Merchandise inventories	1,181,167	1,134,059
Short-term investments	11,290	9,791
Supplies and other current assets	87,950	70,229
Total current assets	<u>3,813,581</u>	<u>3,962,860</u>
Property and equipment:		
Buildings and improvements	3,083,796	3,347,607
Fixtures and equipment	1,355,203	1,397,837
Construction-in-progress	232,649	261,998
Total property and equipment, gross	4,671,648	5,007,442
Less accumulated depreciation	<u>(3,036,345)</u>	<u>(3,242,761)</u>
Total property and equipment, net	1,635,303	1,764,681
Other assets	13,620	16,614
Overfunded retirement plans	647,561	-
Long-term investments and supplemental plan assets	73,892	24,030
Total assets	<u>\$ 6,183,957</u>	<u>\$ 5,768,185</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 476,520	\$ 391,313
Commercial paper and current maturities of long-term debt	88,602	194,236
Accrued salaries and other employee benefits	122,610	119,717
Dividends payable	26,208	30,860
Other current liabilities	198,652	166,563
Total current liabilities	<u>912,592</u>	<u>902,689</u>
Long-term debt	114,242	231,844
Accrued pension and other benefits	48,201	1,231,857
Other noncurrent liabilities	96,471	84,273
Total liabilities	<u>1,171,506</u>	<u>2,450,663</u>
Net assets:		
Accumulated other comprehensive (loss) gain:		
Pension and postretirement benefit liability	(503,311)	(2,158,152)
Derivative instruments	(1,073)	195
Total accumulated other comprehensive loss	<u>(504,384)</u>	<u>(2,157,957)</u>
Retained earnings	5,516,835	5,475,479
Total net assets	<u>5,012,451</u>	<u>3,317,522</u>
Total liabilities and net assets	<u>\$ 6,183,957</u>	<u>\$ 5,768,185</u>

See accompanying notes.

Army and Air Force Exchange Service

Statements of Earnings
(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended	
	January 29, 2022	January 30, 2021
Net sales	\$ 6,412,948	\$ 5,884,122
Finance revenue	207,958	223,598
Concession income	219,523	184,879
Other operating income	30,263	28,677
Total revenue	<u>6,870,692</u>	<u>6,321,276</u>
Cost of sales and operating expenses:		
Cost of goods sold	4,792,366	4,375,955
Selling, general, and administrative:		
Employee compensation and benefits	1,135,767	1,103,210
Depreciation and amortization	241,221	250,115
Other	572,037	508,115
Total selling, general, and administrative expenses	<u>1,949,025</u>	<u>1,861,440</u>
Interest expense	1,301	3,802
Bad debt expense	14,184	23,819
Total expenses	<u>6,756,876</u>	<u>6,265,016</u>
Operating income	113,816	56,260
Other income	10,022	11,446
Non-service pension and postretirement income	122,484	41,073
Net earnings	<u>\$ 246,322</u>	<u>\$ 108,779</u>

See accompanying notes.

Army and Air Force Exchange Service

Statements of Comprehensive Income
(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended	
	January 29, 2022	January 30, 2021
Net earnings	\$ 246,322	\$ 108,779
Other comprehensive income (loss):		
Reclassification of unrealized gain (loss) on derivative instruments to earnings	(1,267)	220
Pension and postretirement benefits adjustments:		
Actuarial gain (loss) arising during the period	1,527,947	(34,020)
Amortization of net loss	126,893	166,789
Other comprehensive income	<u>1,653,573</u>	<u>132,989</u>
Comprehensive income	<u>\$ 1,899,895</u>	<u>\$ 241,768</u>

See accompanying notes.

Army and Air Force Exchange Service

Statements of Changes in Net Assets
(Dollars in Thousands, Unless Otherwise Noted)

	Retained Earnings	Accumulated Other Comprehensive Loss	Net Assets
Balance at February 1, 2020	\$ 5,519,757	\$ (2,290,946)	\$ 3,228,811
Net earnings	108,779	-	108,779
Pension and postretirement benefits adjustments	-	132,769	132,769
Reclassification of unrealized gain on derivative instruments to earnings	-	220	220
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps	(153,057)	-	(153,057)
Balance at January 30, 2021	5,475,479	(2,157,957)	3,317,522
Net earnings	246,322	-	246,322
Pension and postretirement benefits adjustments	-	1,654,840	1,654,840
Reclassification of unrealized loss on derivative instruments to earnings	-	(1,267)	(1,267)
Dividends to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps	(204,966)	-	(204,966)
Balance at January 29, 2022	<u>\$ 5,516,835</u>	<u>\$ (504,384)</u>	<u>\$ 5,012,451</u>

See accompanying notes.

Army and Air Force Exchange Service

Statements of Cash Flows
(Dollars in Thousands, Unless Otherwise Noted)

	Year Ended	
	January 29, 2022	January 30, 2021
Operating activities		
Net earnings	\$ 246,322	\$ 108,779
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	269,826	281,281
Loss (gain) on disposals of property and equipment	76	(3,330)
Loss on supplemental pension plan assets	1,892	2,235
Bad debt expense	14,184	23,819
Change in operating assets and liabilities:		
Accounts receivable	96,794	288,693
Merchandise inventories	(47,108)	252,155
Supplies and other assets	(16,369)	(9,055)
Pension assets and liabilities	(170,957)	(169,389)
Long-term investments and supplemental plan assets	(1,892)	(2,235)
Accounts payable	84,266	(28,941)
Change in cash overdraft	(10)	25
Accrued salaries and other employee benefits	2,576	7,533
Other liabilities	40,509	20,072
Net cash provided by operating activities	<u>520,109</u>	<u>771,642</u>
Investing activities		
Purchases of property and equipment	(160,103)	(196,583)
Proceeds from the sale of property and equipment	19,578	6,240
Purchases of investments	(51,445)	(2,208)
Proceeds from the disposition of investments	86	-
Net cash used in investing activities	<u>(191,884)</u>	<u>(192,551)</u>
Financing activities		
Payments under commercial paper agreement	(106,000)	(226,000)
Payment of long-term debt	(117,237)	(56,887)
Payment of dividends	(209,617)	(152,128)
Net cash used in financing activities	<u>(432,854)</u>	<u>(435,015)</u>
Net (decrease) increase in cash and cash equivalents	<u>(104,629)</u>	<u>144,076</u>
Cash and cash equivalents at beginning of year	241,245	97,169
Cash and cash equivalents at end of year	<u>\$ 136,616</u>	<u>\$ 241,245</u>

See accompanying notes.

Army and Air Force Exchange Service

Notes to Financial Statements
(Dollars in Thousands, Unless Otherwise Noted)

January 29, 2022

1. Description of Business and Summary of Significant Accounting Policies

General

The Army and Air Force Exchange Service (the Exchange) is a joint non-appropriated fund instrumentality (NAFI) of the United States (U.S.) organized under the Departments of the U.S. Army and the U.S. Air Force. The Exchange provides retail services (including e-commerce) to soldiers, airmen, and their families through a network of stores located on U.S. Government installations in the U.S., Europe, the Pacific Rim, and the Middle East. Middle East services operating in Afghanistan and Iraq primarily provide support for Operation Freedom Sentinel (OFS) and Operation Inherent Resolve (OIR). In addition to providing merchandise and services of necessity and convenience to authorized patrons at competitively low prices, the Exchange's mission is to generate reasonable earnings to supplement appropriated funds for the support of Army and Air Force morale, welfare, and recreation programs. The Exchange maintains custody of and control over its non-appropriated funds. Funds that are not distributed as dividends are reinvested in the Exchange's operations. The Exchange is exempt from direct state taxation and from state regulatory laws. Such laws include licensing and price control statutes.

The Exchange utilizes accounting principles generally accepted in the U.S. (U.S. GAAP) applicable to "for-profit" organizations because of the nature of its commercial-type operations. The Exchange's financial statements include the operations of all Exchange activities worldwide.

Fiscal Year

The Exchange's fiscal year-end is the Saturday nearest January 31. References to fiscal year 2021 and fiscal year 2020 herein are to the fiscal years ended January 29, 2022 and January 30, 2021, respectively.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Net sales by geographic region are summarized below:

	Year Ended	
	January 29, 2022	January 30, 2021
Continental U.S., including Alaska	\$ 4,380,910	\$ 3,845,930
Pacific Rim	963,756	913,625
Europe, primarily Germany	629,739	596,150
Middle East, including Afghanistan and Iraq	147,958	191,055
Other countries	290,585	337,362
Total net sales	<u>\$ 6,412,948</u>	<u>\$ 5,884,122</u>

Appropriated Funds

In accordance with applicable U.S. Army and Air Force regulations, the Exchange is not required to pay rent for the use of properties owned by the U.S. Government or utility costs associated with overseas exchanges. Permanent structures that are constructed by the Exchange and paid for from Exchange funds become the property of the U.S. Government. The structures cannot be used for other than the Exchange's purposes without prior approval by the Exchange Director/Chief Executive Officer and the relevant department of the U.S. Government. As such, the Exchange has included the cost of the structures on its balance sheets and depreciates the cost of the structures on a straight-line basis over their estimated useful lives. Services, such as ocean transportation of merchandise to certain locations on U.S. chartered vessels and performance of administrative and supervisory functions by military personnel, have been provided without charge to the Exchange.

Management has estimated the value of transportation costs paid by the U.S. Government for Exchange materials shipped to and from overseas Exchange facilities (excluding Middle East) to be approximately \$90,168 and \$88,002 for fiscal years 2021 and 2020, respectively. In addition, Middle East transportation costs of \$10,911 and \$16,759 were paid by the U.S. Government for fiscal years 2021 and 2020, respectively.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

The Exchange receives reimbursements from the U.S. Government of certain incremental costs incurred by the Exchange in relation to support provided to contingency operations. Appropriated fund (APF) reimbursements are recorded when an incremental cost that qualifies for reimbursement has been incurred and reimbursement by responsible agency is probable. Such APF reimbursement receivables are classified as trade and other accounts receivable on the accompanying balance sheets and are recorded as an offset to the related expenses (as described below) on the statement of earnings. In fiscal years 2021 and 2020, the Exchange recorded APF reimbursements of \$17,437 and \$24,720, respectively. These amounts include expenses related to inventory markdowns and shortages, personnel costs, in-theater transportation, and other expenses.

Dividends

The Exchange is required, under various agreements, to distribute a portion of each year's net earnings in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and accompanying notes. Key estimates made by Exchange management include the level of allowance needed for potentially uncollectible accounts receivable and discount rates, long-term rate of return on assets, health care trend assumptions, and mortality assumptions used to determine obligations associated with pension plans and postretirement benefit plans.

In pension accounting, the most significant actuarial assumptions are the discount rate, the long-term rate of return on plan assets, health care trend assumptions, and mortality rates. In determining the long-term rate of return on plan assets, the Exchange considers the nature of the plans' investments, an expectation of the plans' investment strategies, and the expected rate of return. Pension assets include investments in limited partnerships; real estate properties; and private equity, timber, agriculture, and debt, which do not have readily available market values. These investments are valued based on amounts reported to management by the respective general partners, investment managers, or appraisers, using net asset value (NAV) as a practical expedient for fair value or an equivalent measure. See Note 6 for additional information about benefit plans.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand in stores, deposits in banks, and third-party credit card receivables, which generally are collected within a week. Cash and cash equivalents are carried at cost, which approximates fair value.

Accounts Receivable, Finance Revenue, and Allowance for Credit Losses

As of January 29, 2022 and January 30, 2021, \$2,048,438 and \$2,083,871, respectively, of the Exchange's accounts receivable balance represents amounts due from cardholders under its in-house credit program, the MILITARY STAR® Card. The MILITARY STAR® Card program extends credit to eligible Exchange customers for the purchase of retail goods and services at Exchange activities worldwide.

Minimum payments are calculated based on 1.5% of the unpaid balance as of the customer's last purchase date. These payments are applied in accordance with the Credit CARD Act of 2009.

Concentrations of credit risk, with respect to customer accounts receivable, are limited due to the large number of customers comprising the Exchange's credit card base and their dispersion throughout the world. The Exchange believes the carrying amount of existing customer receivables approximated its fair value due to the short-term nature of those receivables.

The Exchange's trade and accounts receivable balance also includes \$130,322 and \$133,169 of receivables from the Marine Exchange (MCX) for Marine MILITARY STAR® Card outstanding balances and related processing fees as of January 29, 2022 and January 30, 2021, respectively.

Finance revenue is calculated based upon the customer account balance outstanding during the period after consideration of the applicable grace period, typically 30 days following the billing date. The finance rate charged is a variable interest rate calculated at a variable amount above the U.S. Prime Rate reported in *The Wall Street Journal*. The standard annual percentage rate (APR) for retail purchases was 10.24% as of January 29, 2022 and January 30, 2021. Beginning at 90 days past due, the delinquency rate of 18.24% applies. Finance revenue is recorded unless an account balance has been without any activities on individual accounts for an extended period of time, generally 150 days. Customer receivables past due 90 days or more and still accruing interest were approximately \$16,303 and \$19,282 as of January 29, 2022 and January 30, 2021, respectively.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Accounts past due for 30 days or more are considered delinquent. Accounts delinquent for 150 days are placed on nonaccrual status whereby finance income is no longer accrued and submitted to the Exchange's collection department. The Exchange utilizes various means to collect past-due accounts, as well as nonaccrual status accounts, including some methods not available to other commercial credit card financial institutions. The Exchange has agreements with other U.S. Government entities that allow the Exchange to garnish wages of service personnel, as well as claim the debtors' future payments from such U.S. Government entities, including U.S. Treasury income tax refunds. Personal contact, external collection agencies, and letters to service personnel superiors are also used to pursue delinquent accounts. The outstanding receivables related to accounts previously charged off (previously submitted to the collection department) were \$125,377 and \$184,620 at January 29, 2022 and January 30, 2021, respectively. These accounts are at least 150 days past due and are generally outstanding for one to five years.

The Exchange's credit card portfolio consists of smaller-balance, homogeneous loans. Due to the homogeneous nature of the credit card portfolios, a provision for credit loss is recorded related to the Exchange's current credit card portfolio based on a percentage of total projected charge-offs that are considered uncollectible.

The Exchange periodically evaluates the adequacy of the allowance using such factors as prior account loss experience, changes in the volume of the account portfolio, changes in the estimates of anticipated recoveries on delinquent or written-off balances, and changes in credit policy. These factors were considered in establishing the Exchange's allowance for credit losses, and the net receivable related to accounts previously written-off as of January 29, 2022 and January 30, 2021. It is reasonably possible that the amounts the Exchange will ultimately recover on delinquent balances could differ materially in the near term from the amounts assumed in arriving at the allowance for credit losses and net receivable related to accounts previously written-off. Bad debt expense of \$14,184 recorded in fiscal year 2021 is primarily related to the Exchange's current credit card portfolio. This is compared with \$23,819 in bad debt expense recorded in fiscal year 2020.

With respect to accounts previously written-off, the Exchange records and evaluates collectibility of a net receivable using a portfolio approach pooled by year based on estimated probable recoveries. Finance income and cash collections are applied to outstanding balances until 100% of the net receivables from each portfolio year has been collected. Subsequent cash collections in excess of amounts previously charged off are recorded as finance revenue upon collection. Collections on accounts previously written-off and submitted to U.S. Government entities totaled

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

approximately \$135,349 and \$125,494 in fiscal years 2021 and 2020, respectively. Finance revenue recognized in fiscal year 2021 related to nonaccrual accounts totaled approximately \$21,055 compared with approximately \$12,882 in fiscal year 2020.

The following table sets forth the age of the Exchange's credit card receivables that have not yet been submitted to U.S. Government entities for collection:

	January 29, 2022		January 30, 2021	
	Amount	Percentage of Receivables	Amount	Percentage of Receivables
	<i>(In Millions)</i>		<i>(In Millions)</i>	
Current	\$ 1,923	88.4%	\$ 1,999	90.3%
1–29 days past due	141	6.5	120	5.4
30–59 days past due	69	3.2	47	2.1
60–89 days past due	26	1.2	28	1.3
90+ days past due	16	0.7	19	0.9
Period-end gross credit card receivables	<u>\$ 2,175</u>	<u>100.0%</u>	<u>\$ 2,213</u>	<u>100.0%</u>

The following table sets forth the provision for possible credit loss related to the Exchange's current credit card portfolio and does not include the net receivable related to accounts submitted to U.S. Government entities for collection. In addition, this table does not include the allowance for credit losses for other trade accounts receivable that are unrelated to the Exchange's credit card portfolio.

	2021	2020
	<i>(In Millions)</i>	
Allowance at beginning of period	\$ 25	\$ 25
Provision for bad debt	14	24
Net write-offs	(16)	(24)
Allowance at end of period	<u>\$ 23</u>	<u>\$ 25</u>

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

The following table sets forth the credit scores of the Exchange's credit card portfolio that have not yet been submitted to U.S. Government entities for collection as reported by the Fair Isaac Corporation (FICO).

	January 29, 2022	January 30, 2021
	<i>(In Millions)</i>	
Nondelinquent accounts (current and 1–29 days past due):		
FICO score of 700 or above	\$ 700	\$ 704
FICO score of 600 to 699	1,022	1,027
FICO score below 600	342	388
Total nondelinquent accounts	2,064	2,119
Delinquent accounts (30+ days past due)	111	94
Period-end gross credit card receivables	<u>\$ 2,175</u>	<u>\$ 2,213</u>

Merchandise Inventories

The Exchange's inventories are valued at the lower of cost or net realizable value, as determined by the retail inventory method of accounting (RIM). Certain warehousing and distribution expense costs are included in the cost of inventory, which amounted to \$15,558 and \$17,080 at January 29, 2022 and January 30, 2021, respectively.

Inherent in the RIM calculation are certain significant management judgments and estimates, including, among others, merchandise markons, markups, markdowns, and shrinkage, which significantly impact the ending inventory valuation at cost, as well as resulting gross margins. The methodologies utilized by the Exchange in the application of the RIM calculation are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the groupings of homogenous classes of merchandise, the development of shrinkage and obsolescence reserves, and the accounting for price changes.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Buildings and Improvements

Buildings and improvements primarily represent permanent structures constructed and paid for by the Exchange and owned by the U.S. Government. These assets are recorded by the Exchange at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. The useful lives are governed, to a large extent, by the deployment of Army and Air Force personnel and, to some extent, by the requirements of the Departments of the Army and the Air Force with respect to space occupied by the Exchange. Buildings are generally depreciated over 30 years, and improvements are depreciated over periods from 7 to 15 years. The Exchange loses its rights to buildings and improvements in the event of base closures and accelerates depreciation of its assets when such closures are probable. Although these facilities are segregated from the fixed asset portfolio, the Exchange closely monitors operations to ensure the highest level of efficiencies can be maintained while maximizing profits.

The carrying value of long-lived assets, including property and equipment, is evaluated annually or whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or asset group. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses or a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets, or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value. The Exchange has not recorded any long-lived asset impairment charges during fiscal years 2021 or 2020.

Fixtures and Equipment

Fixtures and equipment are carried at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets. Motor vehicles are depreciated over periods from 5 to 10 years, and equipment is depreciated over periods from 2 to 15 years.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Self-Insurance

The Exchange self-insures for property, automobile, public liability, workers' compensation, comprehensive casualty losses, ocean marine, and other casualty losses. However, the Exchange has commercial property insurance covering the buildings, contents, and inventories at certain locations. The reserve for certain self-insurance losses is based on calculations performed by the Exchange's independent actuarial consultants using loss development factors to estimate ultimate loss. The Exchange's self-insurance reserves were \$68,316 and \$79,823 as of January 29, 2022 and January 30, 2021, respectively.

Reserves were discounted at the following weighted average rates:

	January 29, 2022	January 30, 2021
Workers' compensation	3.12%	2.58%
Property liability	1.37	0.38
Public liability	1.29	0.41
General liability	1.34	0.40

Separation Pay and Vacation Leave Accruals

Separation pay and vacation leave for local national employees in foreign countries are accrued as earned based upon the labor laws of host countries and upon agreements between the U.S. and foreign governments. In order to estimate this liability, the Exchange and its actuaries make certain assumptions, including the amounts considered recoverable from foreign governments under existing agreement terms. Actual results may vary from these assumptions. Additionally, the liability for vacation leave earned by U.S. citizens is accrued as earned.

Advertising Costs

Advertising costs are expensed when the advertisement first occurs. Advertising expenses were \$31,957 and \$30,443 for the years ended January 29, 2022 and January 30, 2021, respectively, and are included in selling, general, and administrative expenses. The Exchange's cooperative advertising allowances are generally accounted for as a reduction in the purchase price of inventory.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Exchange recognizes revenue when control of the merchandise is transferred to customers in an amount that reflects the consideration received in exchange for such merchandise. For sales at the retail locations, control is transferred at the point at which the customer receives and pays for the merchandise at the register. For e-commerce sales, control is transferred when merchandise is tendered to a third-party carrier for delivery to the customer. Cash is typically received on the day of or, in the case of credit or debit card transactions, within several days of the related sales. Finance revenue includes finance charges and administrative fees on credit sales. Concession income includes fees charged to concessionaires based on a percentage of their sales and is recognized at the time of sale.

Income Taxes

The Exchange is a non-appropriated fund instrumentality of the U.S. and, as such, is not subject to the payment of income taxes.

401(k) Plan

The Exchange has a 401(k) voluntary savings and investment plan open to regular full- and part-time employees who meet certain minimum requirements. New hire associates are automatically enrolled in the 401(k) savings plan after a 30-day waiting period during which they may opt out. The employees can make voluntary contributions to the plan not to exceed the lesser of 99% of eligible participant compensation or the applicable 401(k) maximum deferral contribution limit for the year.

Foreign Currency Hedging

As part of an overall risk management strategy, the Exchange uses foreign currency exchange contracts to hedge exposures to changes in foreign currency rates on the Exchange's payroll and foreign vendor obligations denominated in foreign currencies. These derivative instruments are recognized in the accompanying financial statements and measured at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

earnings or recognized in net assets until the hedged item is recognized in earnings. Hedged items are reclassified from accumulated other comprehensive income (loss) and into earnings using the specific identification method. The Exchange's policy is that it does not speculate in hedging activities. The maximum length of time over which the Exchange is hedging its exposure to the variability of future cash flows for forecasted transactions is one year.

Benefit Plans

Liabilities and expenses related to the Exchange's benefit plans are determined based on a number of actuarial assumptions, which are reviewed and determined on an annual basis. These assumptions include discount rates, health care cost trend rates, compensation increase rate, benefits earned, mortality rates, number of participants, certain demographics, and other factors. Actual results that differ from assumptions are accumulated and amortized to expense over future periods and, therefore, generally affect recognized expense in future periods. The projected benefit obligation is recognized on the accompanying balance sheets. Actuarial gains and losses are recognized as components of accumulated other comprehensive loss in net assets until amortized as a component of net periodic benefit cost.

Fair Value Measurements

Under Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under ASC 820 focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. See Note 2 for additional information regarding fair value measurements.

Financial instruments that potentially subject the Exchange to concentrations of credit risk consist principally of investments held by a noncontributory supplement deferred compensation plan (Supplemental Plan) and derivative financial instruments. The Exchange uses high-credit-quality counterparties when executing derivative transactions.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

1. Description of Business and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a finance lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). For nonpublic companies, ASU 2016-02 is effective for reporting periods beginning after December 15, 2021. The Exchange is evaluating ASC 842 and the related impact on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance will replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Exchange will be required to use a forward-looking expected credit loss model for accounts receivable, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The ASU is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. The Exchange does not expect ASU 2016-13 to have a material effect on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, modifies, and adds disclosure requirements for fair value measurements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this ASU did not have a material impact on the Exchange's financial statements.

1. Description of Business and Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this update removed disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendment is effective in fiscal years ending after December 15, 2021. Early adoption is permitted. The Exchange is evaluating ASU 2018-14 and the related impact to its financial statements.

2. Fair Value Measurements

ASC 820 establishes a framework for measuring fair value. The inputs used to measure fair value are prioritized based on a three-level hierarchy as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Exchange uses the unadjusted quoted prices in active markets for identical assets or liabilities to which the Exchange has access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.
- Level 2 – Observable inputs other than quoted prices in Level 1. The Exchange determines the value of the investment holding by evaluating its pro rata share of investments where it does not own the underlying securities but rather a proportional share of the fund, such as mutual fund and common collective trusts. Significant inputs, other than quoted market prices included in Level 1 that are observable, impact either directly or indirectly the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk, and default rates.

2. Fair Value Measurements (continued)

- 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. Inputs are unobservable for the assets or liabilities. The Exchange invests only with managers that provide financial statements that are independently audited at least once a year. The financial statements are accompanied by a report from the independent audit firm, which discloses the accounting basis as well as an opinion regarding the reliability of the financial statements. In addition to the audited financial statements, the fund managers have provided the type of investments as well as the methods used to value and appraise all investments in the fund's portfolio. The Exchange's benefit plan Level 3 assets and liabilities are measured at fair value on a recurring basis.

Cash and cash equivalents, accounts payable, and accrued liabilities are reflected on the accompanying balance sheets at cost, which approximates fair value due to the short-term nature of these instruments. Trade and other accounts receivable are reflected on the accompanying balance sheets at cost less an allowance for credit losses, which approximates fair value due either to the short-term nature of the instruments or the variable market rate of interest that is charged on outstanding credit card balances. The fair value of the Exchange's debt is disclosed in Note 3.

The Exchange holds investments related to the Supplemental Plan totaling \$25,235 and \$23,814 at January 29, 2022 and January 30, 2021, respectively, which are included in long-term investments and Supplemental Plan assets on the accompanying balance sheets. Supplemental Plan assets are classified as trading securities since gains and losses from these investments are intended to offset the cost of the Supplemental Plan. Earnings on trading securities were \$1,892 and \$2,235 in fiscal years 2021 and 2020, respectively. The cost of securities sold is determined primarily on a specific identification method. Refer to Note 6 for further discussion of the supplemental plan, and refer to Note 4 for further discussion of the Exchange's derivative positions.

3. Indebtedness

Lines of Credit

The Exchange maintains three lines of credit aggregating to \$2,250,000. The first is a committed unsecured revolving line of credit that is facilitated by a ten-bank syndicate led by Wells Fargo Bank, N.A. aggregating to \$1,500,000 that was entered into on June 15, 2018, and expires on June 15, 2023. As of January 29, 2022, there is a zero balance outstanding and there were no borrowings under this line of credit during fiscal year 2021.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

3. Indebtedness (continued)

In addition, the Exchange has a committed line of credit for \$500,000 with Installation Management Command G-9 (IMCOM G-9). This agreement was renewed on December 4, 2019, for a five-year term. Borrowings under the IMCOM G-9 line of credit had interest rates of 0.14% during fiscal year 2021 and 0.16% to 1.61% during fiscal year 2020. Renewal reviews will take place 24 months prior to expiration in order to have the renewal of future agreements in place prior to the one-year expiration time frame.

The third line of credit is an uncommitted Master Note Facility with New York Life for \$250,000 that was entered into on October 15, 2020, and expires on October 15, 2023. As of January 29, 2022, there is a zero balance outstanding and there were no borrowings under this facility during fiscal year 2021.

During fiscal year 2021, daily borrowings were generally due within 30 to 260 days. As of January 29, 2022, there is zero balance outstanding under the IMCOM G-9 line of credit.

Commercial Paper

In June 2013, the Exchange implemented a commercial paper program. As of January 29, 2022 and January 30, 2021, the outstanding commercial paper obligations, inclusive of original issue discount, were \$81,000 and \$187,000, respectively. The commercial paper program is an open-ended agreement; however, outstanding balances as of January 29, 2022, have maturity dates that range from 1 to 270 days and, as such, were classified as current. Borrowings under the commercial paper program had interest rates ranging from 0.07% to 0.15% during fiscal year 2021, and 0.06% to 1.83% during fiscal year 2020.

Senior Notes

In October 2009, the Exchange completed a private placement debt offering of \$90,000 of 4.95% senior notes due in 2024 (the senior notes), which comprise a 15-year amortizing principal. As of January 29, 2022, the senior notes have a total remaining outstanding obligation of \$21,844.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

3. Indebtedness (continued)

Term Loans

A three-year syndicated term loan of \$250,000 was entered into as part of the Wells Fargo syndication agreement on June 15, 2018, with original maturity on June 15, 2021. During fiscal year 2020, the syndicated term loan agreement was amended to reduce the loan amount to \$200,000 and extend maturity to be coterminous with the syndication agreement on June 15, 2023. As part of the amendment in fiscal year 2020, the interest rate was increased 12.5 basis points to the London Interbank Offered Rate plus 0.875%.

The average interest rates for all indebtedness, including lines of credit (both committed and uncommitted), commercial paper, senior notes and term loans, were 0.64% and 0.68% for the years ended January 29, 2022 and January 30, 2021, respectively.

Outstanding debt obligations consisted of the following:

	January 29, 2022	January 30, 2021
Outstanding debt principal balances:		
IMCOM G-9 committed line of credit	\$ —	\$ 10,000
Senior notes	21,844	29,080
Term loan – Wells Fargo	100,000	200,000
Commercial paper – Truist	–	80,000
Commercial paper – Wells Fargo	–	32,000
Commercial paper – Fifth Third Bank	–	30,000
Commercial paper – Citibank	81,000	45,000
Total debt obligations	202,844	426,080
Current maturities	(88,602)	(194,236)
Total long-term debt obligations	\$ 114,242	\$ 231,844

The Exchange believes that the carrying values of amounts outstanding under its commercial paper and term loan agreements approximate fair value given the term of the debt and floating interest rates. As of January 29, 2022, the estimated fair value for the 2024 senior notes is \$23,292. Fair value is calculated using a discounted cash flow analysis (Level 2), with estimated interest rates offered for notes with similar terms and maturities.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

3. Indebtedness (continued)

Cash paid for interest for fiscal years 2021 and 2020 was approximately \$2,563 and \$5,239, respectively. The Exchange has complied with all financial and nonfinancial covenants per loan agreements as of January 29, 2022, and expects to comply through the period ending January 28, 2023.

Principal maturities of debt obligations as of January 29, 2022, are as follows:

2022	\$ 88,602
2023	107,987
2024	6,255
2025	—
2026	—
	<u>\$ 202,844</u>

4. Derivative Financial Instruments

Forward and option collar foreign exchange contracts are used primarily to hedge the risk of the Exchange's euro-denominated payroll and foreign vendor obligations against adverse changes in foreign currency exchange rates. Under the foreign exchange contracts, the Exchange agrees to pay an amount equal to a specified exchange rate multiplied by a euro notional principal amount, and to receive in return an amount equal to a specified monthly pegged exchange rate multiplied by the same euro notional principal amount. No other cash payments are made under the contracts, and the contracts cannot be terminated. Under the option collar contracts (effectively the simultaneous purchase of a call option and sale of a put option for the same notional amount and maturity, with the put being the floor strike rate and the call being the ceiling strike rate), the user maintains full protection against adverse movements, but gains due to favorable exchange rate moves are limited to the strike price of the sold option.

The Exchange has designated the forward and option collar foreign exchange contracts as cash flow hedges of its exposure to changes in its functional currency-equivalent cash flows on the associated payroll and foreign vendor obligations. Accordingly, the changes in the fair value of the Exchange's forward and option collar foreign exchange contracts are recorded on the Exchange's balance sheets as an asset or a liability and in net assets (as a component of accumulated other comprehensive loss). As the notional amounts and terms of each forward and option collar foreign exchange contract match those of its liability counterpart at maturity, any ineffectiveness is immaterial in the foreign exchange contracts.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

4. Derivative Financial Instruments (continued)

Upon expiration of the hedge contracts, the amount of the hedged item that affects earnings is reclassified from accumulated other comprehensive loss.

As of January 29, 2022, the Exchange had various foreign exchange contracts (option collars) outstanding related to approximately \$62,201 (€52,500) of its forecasted payroll and inventory purchase liabilities. The notional value of outstanding option collar contracts was \$62,201 (€52,500). The gain of \$269 for accrued salaries, separation pay and other benefits and \$804 for accounts payable totaling a net gain of \$1,073 on the accompanying balance sheet as of January 29, 2022, is included as a component of accumulated other comprehensive income. The balance of \$1,073 in accumulated other comprehensive gain is expected to be reclassified into earnings within the next 12 months. The effects of outstanding derivatives are revalued periodically. The Exchange has recognized approximately \$1,206 in gain on foreign currency hedge transactions settled during fiscal year 2021, compared with \$854 in gain during fiscal year 2020.

Unrealized gains and losses on foreign exchange hedges that are included in accumulated other comprehensive loss are recognized into earnings as the related payroll expenses are paid or the related inventory is sold through. As of January 29, 2022 and January 30, 2021, total derivatives designated as hedging instruments were \$1,073 and \$195, respectively.

5. Lease and Rental Obligations

The Exchange's operating lease and rental commitments primarily include real estate and information technology leases. The Exchange recorded rent expense of \$3,099 and \$2,623 for the fiscal years ended January 29, 2022 and January 30, 2021, respectively. The following is a schedule, by fiscal year, of the future minimum rental payments required under all leases as of January 29, 2022:

2022	\$ 4,039
2023	4,030
2024	3,650
2025	3,120
2026	3,120
Thereafter	8,325
	<u>\$ 26,284</u>

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans

The Exchange has a defined benefit pension plan, the Retirement Annuity Plan (the Basic Plan), covering regular full-time civilian employees of the Exchange who are citizens or residents of the U.S. In addition, the Supplemental Plan provides for selected benefits to employees in the Executive Management Program. The Exchange's policy is to annually fund actuarially determined postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded even in the absence of future contributions. The benefits are based on years of service and the employees' highest three-year average compensation. Assets of the plans consist primarily of marketable debt and equity securities.

In addition to the Exchange's benefit plans discussed above, certain medical and dental (health care) and life insurance benefits are also provided to retired employees through the Postretirement Medical/Dental and Life Insurance (Postretirement) plans for employees of the Exchange. All regular full-time U.S. civilian employees who are paid on the U.S. dollar payroll may become eligible for these benefits if they satisfy eligibility requirements during their working lives. The Exchange's policy is to annually fund actuarially determined postretirement expense unless the respective plan is fully funded or unless an asset-liability model has shown the respective plan will likely become fully funded, even in the absence of future contributions.

On January 1, 2022, the Exchange began the new Medicare Advantage with Prescription Drug (MAPD) plan for all Exchange retirees who are enrolled in Medicare (Parts A & B). This Medicare program is administered by the Aetna Life Insurance Company. All claims will be processed and funded through premiums paid by the Exchange and government subsidy from the Centers for Medicare and Medicaid Services (CMS). As a result of this plan amendment, the Exchange reduced the Postretirement benefit obligations by \$727 million during fiscal year 2021. The Exchange will no longer provide health coverage to those not enrolled in Medicare Parts A & B when eligible, unless they reside in a country/location outside of the continental United States and Hawaii, where Medicare is not offered.

The Exchange also provides certain life insurance and other disability benefits for active employees. Benefits are paid from a Voluntary Employee Beneficiary Association (VEBA) trust maintained by the Exchange and to which the Exchange contributes each year. As of January 29, 2022, the Exchange recorded a net asset of approximately \$17,840, which represents an estimated liability of \$27,843 less trust assets of \$45,683. As of January 30, 2021, the Exchange recorded a net asset of approximately \$20,046, which represents an estimated liability of \$31,350 less trust assets of \$51,396.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

In addition, the Exchange provides a noncontributory defined benefit pension plan to its employees in the United Kingdom (UK Plan). With the UK Plan, the Exchange also provides postemployment benefits (e.g., separation pay) through its Local National benefit plans to employees in Germany, Japan, Okinawa, Azores, Italy, and Turkey (collectively, referred to as Foreign Plans).

The Exchange measures the cost of its pension plans and other postretirement benefit plans in accordance with ASC 715, *Compensation – Retirement Benefits*. As the Exchange's fiscal year-end does not coincide with a month-end, the Exchange has elected to measure plan assets and benefit obligations using the month-end that is closest to the Exchange's fiscal year-end. The assets of the Supplemental Plan are not effectively restricted from being used by the Exchange for other purposes. Therefore, these assets do not qualify as plan assets as defined in ASC 715 and, as a result, are accounted for in accordance with ASC 320, *Investments – Debt and Equity Securities*.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for fiscal years 2021 and 2020. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2021	2020	2021	2020	2021	2020	2021	2020
Change in projected benefit obligations (PBO)								
PBO at prior measurement date	\$ 5,495	\$ 5,261	\$ 24	\$ 26	\$ 2,481	\$ 2,533	\$ 91	\$ 82
Service cost	117	116	1	1	33	34	3	2
Interest cost	161	165	1	1	68	76	1	1
Plan participants' contributions	4	4	-	-	-	-	-	-
Actuarial (gain) loss	(112)	202	(4)	(3)	(74)	(130)	(7)	4
Foreign exchange impact	-	-	-	-	-	-	(3)	5
Benefits paid	(260)	(237)	-	(1)	(88)	(88)	(2)	(2)
Administrative expenses paid	(22)	(16)	-	-	(9)	(7)	(1)	(1)
Plan amendments	-	-	-	-	(727)	63	-	-
PBO at current measurement date	5,383	5,495	22	24	1,684	2,481	82	91
Change in plan assets								
Fair value of assets at prior measurement date	4,865	4,455	-	-	1,939	1,863	66	60
Actual return on assets	777	404	-	-	306	148	-	4
Employer contributions	200	255	-	-	-	23	2	2
Plan participants' contributions	4	4	-	-	1	-	-	-
Benefits paid	(260)	(237)	-	-	(88)	(88)	(2)	(3)
Foreign exchange impact	-	-	-	-	-	-	(1)	3
Administrative expenses paid	(22)	(16)	-	-	(9)	(7)	(1)	-
Fair value of assets at current measurement date	5,564	4,865	-	-	2,149	1,939	64	66
Over/(under)-funded status at fiscal year-end	\$ 181	\$ (630)	\$ (22)	\$ (24)	\$ 465	\$ (542)	\$ (18)	\$ (25)

Supplemental Plan assets do not qualify as plan assets as discussed above.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The following table reflects amounts recognized on the balance sheets as of fiscal years 2021 and 2020. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2021	2020	2021	2020	2021	2020	2021	2020
Amounts recognized on the balance sheets								
Other current liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ 3
Net accrued pension and other benefits asset (liability)	181	(630)	(22)	(24)	465	(542)	(18)	(25)
Accumulated other comprehensive (gain) loss	924	1,590	(1)	3	(432)	546	12	19

A summary of the components of net periodic benefit cost (income) for the benefit plans is as follows for fiscal years 2021 and 2020. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2021	2020	2021	2020	2021	2020	2021	2020
Net periodic cost								
Service cost	\$ 117	\$ 116	\$ 1	\$ 1	\$ 33	\$ 34	\$ 3	\$ 3
Interest cost	161	165	1	1	68	76	1	1
Expected return on assets	(344)	(328)	-	-	(135)	(129)	(2)	(2)
Other adjustments	-	-	-	-	(15)	8	-	-
Net loss amortization	120	133	-	-	20	32	2	2
Net periodic benefit cost (income)	\$ 54	\$ 86	\$ 2	\$ 2	\$ (29)	\$ 21	\$ 4	\$ 4

Information for benefit plans with an accumulated benefit obligation in excess of plan assets is as follows for fiscal years 2021 and 2020. Amounts are stated in millions.

	Pension Benefits				Other Benefits			
	The Basic Plan		Supplemental Plan		Postretirement		Foreign Plans	
	2021	2020	2021	2020	2021	2020	2021	2020
Projected benefit obligation	\$ 5,383	\$ 5,495	\$ 22	\$ 24	\$ 1,684	\$ 2,481	\$ 82	\$ 91
Accumulated benefit obligation	5,050	5,131	8	9	1,684	2,481	76	83
Fair value of plan assets	5,564	4,865	-	-	2,149	1,939	64	66

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

Amounts included in accumulated other comprehensive loss for all plans at January 29, 2022, consist of a net actuarial loss of \$503,311. Amortization of this amount expected to be recognized in fiscal year 2022 is \$85,654.

Actuarial Assumptions

Actuarial weighted average assumptions used in determining plan obligations and the related expense are as follows for fiscal years 2021 and 2020:

	Pension Benefits				Other Benefits	
	The Basic Plan		Supplemental Plan		Postretirement	
	2021	2020	2021	2020	2021	2020
Assumptions used to determine expense and liabilities:						
Discount rate	3.01%	3.16%	3.01%	3.16%	3.07%	3.19%
Long-term rate of return on assets	7.38	7.69	–	–	7.49	7.79
Compensation increase rate	4.47	4.40	9.74	9.60	–	–
Assumptions used at disclosure:						
Discount rate	3.38	3.01	3.38	3.01	3.43	3.07
Compensation increase rate	4.47	4.40	9.90	9.65	–	–

Assumed Health Care Cost Trend Rates at Fiscal Year-End

	2021	2020
Pre-65 health care cost trend rate assumed for next year	6.50%	5.75%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate):		
Pre-65	4.50%	4.50%
Post-65	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2030	2026

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

	Other Benefits		Other Benefits	
	UK Plan		Local National Plan	
	2021	2020	2021	2020
Assumptions used to determine expense:				
Discount rate	1.50%	1.60%	0.72%	0.72%
Long-term rate of return on assets	2.80	3.10	–	–
Compensation increase rate	2.50	2.50	2.40	2.38
Assumptions used at disclosure:				
Discount rate	2.20	1.50	0.91	0.48
Compensation increase rate	3.10	2.50	2.40	2.38

Actuarial assumptions are based on management's best estimates and judgment. The Exchange reassesses its benefit plan assumptions on a regular basis. The expected rate of return for the plan assets represents the average rate of return to be earned on the plan assets over the period that the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Exchange considers the impact of long-term compound annualized returns on the plan assets.

Pension Plan Assets

The Exchange's investment objectives for the benefit plans are designed to generate asset returns that will enable the plans to meet their future benefit obligations. The precise amount for which these obligations will be settled depends on future events, including interest rates, salary increases, and the life expectancy of the plans' members. The obligations are estimated using actuarial assumptions, based on the current economic environment.

The benefit plans seek to achieve total returns sufficient to meet expected future obligations, as well as returns greater than their policy benchmark reflecting the target weights of the asset classes used in their targeted strategic asset allocation. The plans' targeted strategic allocation to each asset class was determined through an asset-liability modeling study.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The following table sets forth the target allocations of plan assets for the fiscal years 2021 and 2020:

	Pension Benefits		Other Benefits			
	The Basic Plan		Postretirement Plan		UK Plan	
	2021	2020	2021	2020	2021	2020
Domestic equity securities	14%	14%	15%	15%	–%	–%
International equity securities	10	10	10	10	20	20
Emerging market equity securities	3	3	4	4	–	–
Low-volatility global equity	9	9	10	10	–	–
Investment-grade fixed income	25	25	25	25	80	80
High-yield fixed income	4	4	–	–	–	–
Treasury inflation protected securities (TIPS)	3	3	3	3	–	–
Real estate – private	4	4	4	4	–	–
Real estate – public	1	1	1	1	–	–
Private equity	9	9	10	10	–	–
Commodities	3	3	3	3	–	–
Alternative debt	5	5	5	5	–	–
Master Limited Partnerships (MLPs)	5	5	5	5	–	–
Timber/farmland	5	5	5	5	–	–
Total	100%	100%	100%	100%	100%	100%

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The Exchange's benefit plan actual asset allocations at January 29, 2022 and January 30, 2021, by asset class category, are as follows:

	Pension Benefits		Other Benefits			
	The Basic Plan		Postretirement Plan		UK Plan	
	2021	2020	2021	2020	2021	2020
Domestic equity securities	14%	14%	14%	15%	–%	–%
International equity securities	8	10	9	11	20	20
Emerging market equity securities	3	4	4	4	–	–
Low-volatility global equity	9	9	10	9	–	–
Investment-grade fixed income	24	26	22	25	80	80
High-yield fixed income	4	4	–	–	–	–
Treasury inflation protected securities (TIPS)	3	3	3	3	–	–
Real estate – private	3	4	4	4	–	–
Real estate – public	1	1	1	1	–	–
Private equity	11	8	12	9	–	–
Commodities	5	4	4	3	–	–
Alternate debt	7	5	8	7	–	–
Master Limited Partnerships (MLPs)	5	5	5	5	–	–
Timber/farmland	3	3	4	4	–	–
Total	100%	100%	100%	100%	100%	100%

The Exchange uses the fair value hierarchy discussed in Note 2 to measure the fair value of assets held by pension and postretirement benefit plans.

Equity securities are diversified across various industries and comprise common and preferred stocks of U.S. and international companies and equity positions in privately held companies controlled through limited partnerships. Common and preferred stocks are based on market quotations and are classified as Level 1 in the fair value hierarchy. The fair values of the investments in the collective investment funds represent the net asset values of the shares or units

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

of such funds as determined by the issuer. Limited partnerships are valued based on net asset value as determined by the general partners and represent the plans' proportionate share of the estimated fair value of the underlying net assets limited partnership. The limited partnerships are valued based on purchase price when recently acquired; valuation models such as discounted cash flows or market multiples; financial measures, such as free cash flow or earnings before interest, taxes, depreciation and amortization (EBITDA); or market comparisons for similar assets and are classified as Level 3 investments. Foreign obligations are foreign equities traded on U.S. exchanges as American Depository Receipts (ADRs), are valued based on market quotations, and are classified as Level 1 investments.

Debt securities comprise corporate bonds, government securities, and asset-backed or collective investment funds and limited partnerships with underlying debt securities. U.S. Government obligations are valued at the closing price reported on the active market on which the individual securities are traded. U.S. Government obligations are classified as Level 1 investments. U.S. Government agency securities are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets with these assets classified as Level 2. Corporate bonds are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Asset-backed securities are publicly traded securities with coupon payments based on the performance of the underlying assets and are usually traded in active markets; however, they may not trade with sufficient frequency to rely on a single price of the same security. As such, broker quotes may be used based on similar assets in active markets. Corporate bonds and asset-backed securities are classified as Level 2 investments.

Real estate and commodities comprise investments whose underlying value is based on real estate or commodities. Publicly traded securities are equity shares in Real Estate Investment Trusts (REITs) or Master Limited Partnerships (MLPs) and are valued based on market quotations. Collective investment funds with underlying investments in exchange-traded positions are classified as Level 2 investments. The net asset value of collective investment funds and limited partnerships with underlying investments in real estate are based on the selling price of the property, income the property is expected to generate, and the market values of any commodities currently on the land.

Other investments consist primarily of investment contracts and are valued at the quoted price as determined by the issuer. Such contracts are classified as Level 2 investments.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The following table sets forth by level within the fair value hierarchy, the Exchange's benefit plan assets and liabilities that are measured at fair value as of January 29, 2022:

	Benefit Plans			
	Total	Level 1	Level 2	Level 3
Assets				
Temporary investments ^(a)	\$ 10,159	\$ 10,159	\$ -	\$ -
Equity securities:				
Common and preferred stock ^(b)	910,526	910,526	-	-
Foreign obligations ^(c)	11,811	11,811	-	-
Debt securities:				
Common and preferred stock ^(b)	2,470	2,470	-	-
Corporate bonds ^(d)	606,917	-	606,917	-
U.S. Government obligations ^(e)	239,429	239,429	-	-
Asset-backed securities ^(f)	235	-	235	-
Real estate and commodities:				
Common and preferred stock ^(b)	361,532	361,532	-	-
Other investments ^(m)	7,786	-	7,786	-
Total investments at fair value	<u>2,150,865</u>	<u>\$ 1,535,927</u>	<u>\$ 614,938</u>	<u>\$ -</u>
Investments measured at net asset value:				
Collective investment funds:				
Equity securities ^(g)	1,835,669			
Debt securities ^(h)	1,228,862			
Real estate and commodities ⁽ⁱ⁾	617,990			
Short-term investment funds ⁽ⁱ⁾	90,823			
Limited partnerships:				
Equity securities ^(k)	1,018,954			
Debt securities ^(k)	547,243			
Real estate and commodities ^(k)	280,432			
Total investments measured at net asset value	<u>5,619,973</u>			
Plan assets not measured at fair value or net asset value ^(l)	<u>6,393</u>			
Total assets	<u>\$ 7,777,231</u>			

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

The following table sets forth by level within the fair value hierarchy, the Exchange's benefit plan assets and liabilities that are measured at fair value as of January 30, 2021:

	Benefit Plans			
	Total	Level 1	Level 2	Level 3
Assets				
Temporary investments ^(a)	\$ 28,478	\$ 28,478	\$ –	\$ –
Equity securities:				
Common and preferred stock ^(b)	858,294	858,294	–	–
Foreign obligations ^(c)	9,938	9,938	–	–
Debt securities:				
Common and preferred stock ^(b)	2,193	2,193	–	–
Corporate bonds ^(d)	558,755	–	558,755	–
U.S. Government obligations ^(e)	240,846	240,846	–	–
Asset-backed securities ^(f)	403	–	403	–
Real estate and commodities:				
Common and preferred stock ^(b)	422,312	422,312	–	–
Other investments ^(m)	8,437	–	8,437	–
Total investments at fair value	<u>2,129,656</u>	<u>\$ 1,562,061</u>	<u>\$ 567,595</u>	<u>\$ –</u>
Investments measured at net asset value:				
Collective investment funds:				
Equity securities ^(g)	1,696,289			
Debt securities ^(h)	1,126,118			
Real estate and commodities ⁽ⁱ⁾	510,567			
Short-term investment funds ⁽ⁱ⁾	92,469			
Limited partnerships:				
Equity securities ^(k)	775,907			
Debt securities ^(k)	404,428			
Real estate and commodities ^(k)	130,294			
Total investments measured at net asset value	<u>4,736,072</u>			
Plan assets not measured at fair value or net asset value ^(l)	<u>4,553</u>			
Total assets	<u>\$ 6,870,281</u>			

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

^(a) Primarily consist of cash held in foreign currencies.

^(b) 2021: Holdings are diversified as a percentage of total equity as follows: Domestic Markets (62%) and Developed International Markets (38%). Domestic Markets are diversified by Large Cap (28%), Small Cap (3%), Public Real Estate – REIT (12%), low-volatility investments (13%), and MLPs (44%). There are no significant concentrations of holdings by the Exchange.

2020: Holdings are diversified as a percentage of total equity as follows: Domestic Markets (59%) and Developed International Markets (41%). Domestic Markets are diversified by Large Cap (26%), Small Cap (4%), Public Real Estate – REIT (12%), low-volatility investments (13%), and MLPs (45%). There are no significant concentrations of holdings by the Exchange.

^(c) 2021: Holdings include International (77%) and Domestic (23%) securities in the form of American Depository Receipts that represent underlying securities, traded on non-U.S. exchanges.

2020: Holdings include International (78%) and Domestic (22%) securities in the form of American Depository Receipts that represent underlying securities, traded on non-U.S. exchanges.

^(d) 2021: Includes 89% and 11% of investments in corporate high-yield debt with S&P rating of B- and below as of January 29, 2022. The remaining investments are in investment-grade corporate bonds.

2020: Includes 89% and 11% of investments in corporate high-yield debt with S&P rating of B- and below as of January 30, 2021. The remaining investments are in investment-grade corporate bonds.

^(e) Includes fixed-income treasury securities backed by the full faith and credit of the U.S. Government. There are no significant foreign currency risks within this segment.

^(f) Holdings consist primarily of publicly traded fixed-income securities whose payments are based on the performance of an underlying asset.

^(g) 2021: 68% of holdings consist of BlackRock index funds, which are passive in nature and employ a strategy of investing in securities that provide beta (market) exposure to a specific index, including the S&P 500 and MSCI EAFE. The remaining 32% consists of international, small cap, and low-volatility investments in the form of mutual funds. The collective investment funds consist of Domestic (58%) and International (42%). Investments have a required notice of three days for any sales or liquidation. The fund's management may impose restrictions on cash redemptions in the

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. There are no restrictions on withdrawals.

2020: 69% of holdings consist of BlackRock index funds, which are passive in nature and employ a strategy of investing in securities that provide beta (market) exposure to a specific index, including the S&P 500 and MSCI EAFE. The remaining 31% consists of international, small cap, and low-volatility investments in the form of mutual funds. The collective investment funds consist of Domestic (57%) and International (43%). Investments have a required notice of three days for any sales or liquidation. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. There are no restrictions on withdrawals.

^(h) 2021: 94% of the holdings consist of two core fixed-income index funds, which both employ a strategy that seeks to match the performance of the Barclays Long Credit Index, and a Loomis Sayles high yield fund (6%), which employs a strategy that seeks to match the performance of the CS High Yield Index. Issuances and redemptions are made on each business day. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. The BlackRock funds have a required notice of three days for any sales or liquidation.

2020: 94% of the holdings consist of two core fixed-income index funds, which both employ a strategy that seeks to match the performance of the Barclays Long Credit Index, and a Loomis Sayles high yield fund (6%), which employs a strategy that seeks to match the performance of the CS High Yield Index. Issuances and redemptions are made on each business day. Distributions may be made in cash or in kind or partly in cash or partly in kind at the sole discretion of the fund's trustee. The BlackRock funds have a required notice of three days for any sales or liquidation.

⁽ⁱ⁾ 2021: Investments include both commodities and real estate, which provide diversified returns relative to stocks and bonds. The underlying commodity investments are actively traded futures, which have full pricing transparency and daily liquidity and are reported at net asset value. Real estate holdings include direct real estate investments in properties that are valued by appraisal and reported as Level 3. The investments are diversified by core 25% and value-added or opportunistic 10% investments. Commodity investments include farmland and timber, which represent 65% of the allocation. There is quarterly redemption available for the real estate investments with a 60-day notice.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

2020: Investments include both commodities and real estate, which provide diversified returns relative to stocks and bonds. The underlying commodity investments are actively traded futures, which have full pricing transparency and daily liquidity and are reported at net asset value. Real estate holdings include direct real estate investments in properties that are valued by appraisal and reported as Level 3. The investments are diversified by core 27% and value-added or opportunistic 10% investments. Commodity investments include farmland and timber, which represent 63% of the allocation. There is quarterly redemption available for the real estate investments with a 60-day notice.

^(j) The State Street Bank and Trust Company Short-Term Investment Fund employs a strategy to provide safety of principal, daily liquidity, and a competitive yield by investing in high-quality money market instruments. Issuances and redemptions are made on each business day. The fund's management may impose restrictions on cash redemptions in the fund outside the normal course of business. Distributions may be made in cash or in kind or partly in cash or partly in kind at the discretion of the fund's trustee.

^(k) Includes limited partnerships that invest primarily in U.S. buy-out opportunities, as well as opportunistic debt of a range of privately held companies. The fund does not have to redeem its limited partnership investment at its net asset value. Instead, the fund receives distributions as the underlying assets of the fund are liquidated.

^(l) Holdings consist of net amounts due to or from brokers for the sale of securities as of the balance sheet date.

^(m) Includes two immediate participation guarantee contracts at contract value.

At January 29, 2022, the Exchange had commitments to fund limited partnerships held by the Exchange's benefit plans of \$689,235.

Employer Contributions

The Exchange made cash contributions totaling \$200,000 to the Basic plan in fiscal year 2021.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

6. Benefit Plans (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Years	Basic Plan	Supplemental Plan	Postretirement	Foreign Plans
2023	\$ 274,245	\$ 456	\$ 83,504	\$ 4,485
2024	278,596	462	86,035	3,764
2025	282,394	469	87,993	3,687
2026	285,256	475	89,203	3,428
2027	287,521	480	90,454	3,834
2028–2032	1,467,632	2,815	451,078	17,253

7. Dividends

The Exchange is required, under various agreements, to distribute a portion of each year’s net earnings before performance bonuses in the form of dividend payments to the Central Welfare Funds, Departments of the Army, the Air Force, the Navy, and the Marine Corps.

Under the current dividend policy, noncash pension and employee benefit plan expenses are excluded from net earnings subject to dividends. Any other exclusion, such as employee bonuses, used in the calculation of net earnings subject to dividends must be approved by the Board of Directors.

The Exchange’s policy is to annually fund actuarially determined postretirement expense unless the plan is fully funded or unless an asset-liability model has shown the plan will likely become fully funded, even in the absence of future contributions. Therefore, each year, pension expense generally reduces the net earnings subject to dividends to the extent cash contributions have actually been made.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

8. Commitments and Contingencies

The Exchange is a defendant in various lawsuits and claims. In the opinion of management, the amounts, if any, which might ultimately be paid in connection with settlement of the litigation would not have a material effect on the financial condition, results of operations, or cash flows of the Exchange.

9. Middle East, Including U.S. Missions in Afghanistan and Iraq

The Exchange’s presence in Iraq, Qatar, Afghanistan, and Kuwait was supported by 28 stores as of January 29, 2022, and 40 stores as of January 30, 2021. Approximately \$145,983 (2%) and \$190,482 (3%) of the Exchange’s net revenues in the fiscal years 2021 and 2020, respectively, were derived from sales to U.S. troops stationed in the Middle East, including OFS and OIR. The Exchange’s inventory balance in this region, at cost, was \$19,965 and \$22,051 at January 29, 2022 and January 30, 2021, respectively. In the event the U.S. must quickly exit a country, any related loss on inventory would adversely affect the Exchange’s results; however, such losses are eligible for reimbursement appropriations that are reasonably assured of collection.

10. Subsequent Events

The Exchange has evaluated subsequent events through May 24, 2022, the date at which the accompanying financial statements were available to be issued.

Federal Minimum Wage Increase

On January 22, 2021, the Biden Administration issued the Executive Order 14003, “Protecting the Federal Workforce, which directed the Office of Personnel Management (OPM), through special salary and special wage rate authorities in title 5, to implement a \$15 minimum wage for Federal employees. In addition, Executive Order 14026, “Increasing the Minimum Wage for Federal Contractors” required a \$15 minimum wage for any Exchange contractors, including, but not limited to, concessionaire vendor employees, working on Department of Defense (DoD) installations, effective January 31, 2022. The Exchange implemented the new \$15 an hour federal minimum rate on February 5, 2022. The Exchange is closely monitoring the impact of the minimum wage increase, working in close coordination with the Under Secretary of Defense for Personnel and Readiness (P&R), as well as the Comptroller office, for potential appropriated funds support in fiscal year 2022 and beyond. As of May 11, 2022, the Exchange has received \$52,000 in appropriated funds support for the government fiscal period ending on September 30, 2022.

Army and Air Force Exchange Service

Notes to Financial Statements (continued)
(Dollars in Thousands, Unless Otherwise Noted)

10. Subsequent Events (continued)

Enterprise Management of Community Services Taskforce Update

In May 2018, the Deputy Secretary of Defense enacted the Enterprise Management of Community Services Taskforce. The goal of the taskforce was to review possible consolidation of the Defense Resale Exchanges and the Defense Commissary Agency. After review and evaluation of the risks, the Deputy Secretary of Defense Office concluded the Resale Community could gain efficiencies without the quantitative and qualitative risk associated with a large consolidation. In April 2022, the Deputy Secretary of Defense rescinded the taskforce memorandum to review possible consolidation and directed the Department to cease all efforts to consolidate the Defense resale entities.

Through coordination with the Under Secretary of Defense Personnel and Readiness, the Exchange will continue to collaborate with instrumentalities in the Defense resale community to identify savings, synergies, and efficiencies across the enterprise (e.g., marketing, buying, information technology).

Revolving Credit Facility Update

On April 27, 2022, AAFES entered into a new \$750 million five-year revolving credit facility that will serve as a backstop for its US Commercial Paper Program. This replaces the \$1 billion syndicated revolving credit facility, which will become current as of June 15, 2022. Under this facility, Wells Fargo will remain as the lead arranger with new commitments by each syndicated bank partner to be established. The 2022 \$750 million syndication closed May 19, 2022, and will replace the existing 2018 syndication.

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2021 BY THE NUMBERS

\$8.2B
REVENUE

\$318M
EARNINGS

\$205M
DIVIDENDS

85%
ASSOCIATES CONNECTED
TO THE MILITARY

53,000+
VETERANS/SPOUSES
HIRED SINCE 2013

4,900+
ASSOCIATES DEPLOYED TO
COMBAT ZONES SINCE 9/11

1,902
WOUNDED WARRIORS
HIRED SINCE 2010

712,000
COMBAT UNIFORMS
OUTFITTED AT COST

7
PLANTS
PROVIDING BAKED GOODS &
WATER OVERSEAS

5.5M
BAKERY ITEMS PRODUCED
OVERSEAS

4.1M
GALLONS OF BOTTLED
WATER

1,600
RESTAURANTS WITH
BE FIT OPTIONS

85M
MEALS SERVED AT
EXCHANGE RESTAURANTS

4.2M
SCHOOL LUNCHES SERVED
AT OR BELOW COST

5M
HAIRCUTS PROVIDED

390M
GALLONS OF FUEL
DISPENSED

10
DISTRIBUTION CENTERS

47.4M
CASES SHIPPED

12.6M
FLEET MILES DRIVEN



EXCHANGE