Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AARP FOUNDATION

December 31, 2016 and 2015

AARP FOUNDATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
AARP Foundation:

We have audited the accompanying consolidated financial statements of AARP Foundation and affiliates (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AARP Foundation and affiliates as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of functional expenses for the year ended December 31, 2016, with summarized totals for the year ended December 31, 2015 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Washington, D.C.
March 16, 2017

AARP FOUNDATION
Consolidated Statements of Financial Position
As of December 31, 2016 and 2015
(In thousands)

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	$ 11,098	$ 7,803
Contributions receivable (Notes 2 and 5)	2,378	943
Grants receivable (Notes 2 and 6)	9,111	7,417
Prepaid expenses and other assets	2,612	2,128
Investments (Notes 2 and 3)	213,167	82,239
Program-related investments, net (Notes 2 and 4)	5,518	5,281
Charitable gift annuity investments (Notes 2 and 3)	6,195	6,126
Property and equipment, net (Notes 2 and 8)	18,563	19,929
Total assets	$ 268,642	$ 131,866
LIABILITIES		
Accounts payable and accrued expenses	$ 20,567	$ 16,164
Deferred revenue (Note 2)	3,787	3,172
Due to affiliates (Note 7)	407	1,402
Charitable gift annuities payable (Note 2)	3,305	3,713
Bonds payable (Note 9)	25,000	25,000
Total liabilities	53,066	49,451
Commitments and contingencies (Notes 7, 12, 13, 14 and 18)		
NET ASSETS		
Unrestricted:		
Undesignated (Note 2)	16,998	13,253
Board designated quasi-endowment (Notes 2 and 16)	18,611	17,139
Board designated operating reserves (Notes 2 and 16)	54,477	50,857
Total unrestricted	90,086	81,249
Temporarily restricted (Notes 2 and 15)	2,449	1,166
Permanently restricted (Notes 2 and 16)	123,041	-
Total net assets	215,576	82,415
Total liabilities and net assets	$ 268,642	$ 131,866

The accompanying notes are an integral part of these consolidated financial statements.

AARP FOUNDATION
Consolidated Statement of Activities
For the year ended December 31, 2016
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Grant revenue (Notes 2 and 10)	$ 94,839	$ -	$ -	$ 94,839
Contributions (Notes 2, 7 and 16)	67,838	2,026	115,090	184,954
In-kind contributions (Notes 2 and 7)	55,935	-	-	55,935
Investment return designated for operations (Notes 2, 3 and 16)	3,970	-	-	3,970
Other	1,942	-	-	1,942
Net assets released from restrictions (Note 15)	743	(743)	-	-
Total operating revenue	225,267	1,283	115,090	341,640
EXPENSES				
Program services (Notes 1 and 11):				
Senior Community Service Employment Program	107,922	-	-	107,922
Tax-Aide	12,297	-	-	12,297
Experience Corps	11,624	-	-	11,624
Impact areas and other programs	38,116	-	-	38,116
Legal advocacy	4,751	-	-	4,751
Total program services	174,710	-	-	174,710
Supporting services:				
Fundraising (Note 11)	24,704	-	-	24,704
Management and general	19,285	-	-	19,285
Total supporting services	43,989	-	-	43,989
Total expenses	218,699	-	-	218,699
Change in net assets from operating activities	6,568	1,283	115,090	122,941
OTHER CHANGES IN NET ASSETS				
Investment return in excess of amounts designated for operations (Notes 2, 3 and 16)	2,274	-	7,951	10,225
Change in value of charitable gift annuities	(5)	-	-	(5)
Change in net assets	8,837	1,283	123,041	133,161
Net assets, beginning of year	81,249	1,166	-	82,415
Net assets, end of year	$ 90,086	$ 2,449	$ 123,041	$ 215,576

The accompanying notes are an integral part of this consolidated financial statement.

AARP FOUNDATION
Consolidated Statement of Activities
For the year ended December 31, 2015
(In thousands)

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Grant revenue (Notes 2 and 10)	$ 88,784	$ -	$ 88,784
Contributions (Notes 2 and 7)	64,607	264	64,871
In-kind contributions (Notes 2 and 7)	52,024	-	52,024
Investment return designated for operations (Notes 2, 3 and 16)	3,650	-	3,650
Other	1,583	-	1,583
Net assets released from restrictions (Note 15)	679	(679)	-
Total operating revenue	211,327	(415)	210,912
EXPENSES			
Program services (Notes 1 and 11):			
Senior Community Service Employment Program	105,649	-	105,649
Tax-Aide	11,243	-	11,243
Experience Corps	11,137	-	11,137
Impact areas and other programs	34,801	-	34,801
Legal advocacy	5,455	-	5,455
Total program services	168,285	-	168,285
Supporting services:			
Fundraising (Note 11)	22,730	-	22,730
Management and general	15,321	-	15,321
Total supporting services	38,051	-	38,051
Total expenses	206,336	-	206,336
Change in net assets from operating activities	4,991	(415)	4,576
OTHER CHANGES IN NET ASSETS			
Inherent contribution of EC's net assets (Note 17)	733	41	774
Investment loss in excess of amounts designated for operations (Notes 2, 3 and 16)	(4,255)	-	(4,255)
Change in value of charitable gift annuities	(69)	-	(69)
Change in net assets	1,400	(374)	1,026
Net assets, beginning of year	79,849	1,540	81,389
Net assets, end of year	$ 81,249	$ 1,166	$ 82,415

The accompanying notes are an integral part of this consolidated financial statement.

AARP FOUNDATION
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 133,161	$ 1,026
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,458	1,498
Amortization of debt issuance costs	17	17
Net realized and unrealized (gain) loss on investments	(10,593)	2,338
Transfer of investments from AARP, Inc. (Notes 3, 7 and 16)	(115,090)	-
Change in present value discount of program-related investments	(243)	(233)
Change in value of charitable gift annuities	5	69
Changes in operating assets and liabilities:		
Contributions receivable	(1,435)	642
Grants receivable	(1,694)	(2,571)
Prepaid expenses and other assets	(501)	1,743
Accounts payable and accrued expenses	4,403	(3,491)
Deferred revenue	615	1,790
Due to affiliates	(995)	(5,213)
Charitable gift annuities payable	(413)	(425)
Net cash provided by (used in) operating activities	8,695	(2,810)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(92)	(172)
Proceeds from program-related investments	6	-
Purchase of investments	(237,183)	(4,031)
Proceeds from sales and maturities of investments	231,869	6,581
Net cash (used in) provided by investing activities	(5,400)	2,378
Net increase (decrease) in cash and cash equivalents	3,295	(432)
Cash and cash equivalents, beginning of year	7,803	8,235
Cash and cash equivalents, end of year	$ 11,098	$ 7,803
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 93	$ 10

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF ORGANIZATION AND PROGRAMS

AARP Foundation (the "Foundation") was incorporated in 1961 as a District of Columbia not-for-profit corporation. AARP Foundation serves low-income vulnerable people 50 and older by creating and advancing effective solutions that help them secure the essentials. AARP Foundation is a nonprofit organization qualified under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is, therefore, exempt from federal income taxes on its charitable operations. In addition, AARP Foundation is a public charity as defined in Section 509(a)(1) of the IRC.

AARP Foundation receives funding from federal and state governments, AARP, Inc., foundations, corporations, and individuals. AARP Foundation's Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

On January 9, 2015, the Foundation acquired a controlling voting interest in AARP Experience Corps ("EC"). EC is a nonprofit organization qualified under Section 501(c)(3) of the IRC, and is therefore exempt from federal income tax on its charitable operations. EC was incorporated on September 10, 2008 under the laws of the District of Columbia. EC's activities are included in the accompanying consolidated financial statements.

The AARP Institute (the "Institute"), an affiliate of AARP Foundation, was incorporated in 1963 as a District of Columbia not-for-profit corporation. The Institute is a nonprofit organization qualified under Section 501(c)(3) of the IRC and is, therefore, exempt from federal income taxes on its charitable operations. In addition, the Institute is a supporting organization as defined in Section 509(a)(3) of the IRC.

The core of the Foundation's mission is to make struggling older adults more visible and to give them the opportunity to thrive. The Foundation works to ensure that low-income, vulnerable older adults have nutritious food, affordable housing, a steady income and strong and sustaining social bonds. The Foundation collaborates with individuals and organizations who share the same commitment to innovation and passion for problem solving. Supported by vigorous legal advocacy, the Foundation creates and advances effective solutions that help struggling older adults transform their lives.

During the years ended December 31, 2016 and 2015, the Foundation's programs were as follows:

The AARP Foundation *Senior Community Service Employment Program* ("SCSEP") provides direct services nationwide to adults seeking training and employment. SCSEP provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level.

SCSEP is primarily funded by the U.S. Department of Labor. Support from the U.S. Department of Labor represented approximately 22% and 34%, respectively, of the Foundation's operating revenue for each of the years ended December 31, 2016 and 2015. The current federal grants to the Foundation expire on June 30, 2017, and are expected to be renewed.

AARP Foundation Tax-Aide ("Tax-Aide") provides volunteer services for federal and state income tax preparation assistance to low and moderate income persons throughout the country, with special attention to those 60 and older. The Tax-Aide program is primarily funded by the Foundation and the Internal Revenue Service ("IRS"). The current federal grants to the Foundation expire on June 30, 2017 and September 30, 2017, and are both expected to be renewed.

AARP Foundation Experience Corps ("Experience Corps") is a high-impact, community-based, volunteer tutoring program that addresses a major contributor to poverty – the inability of children in kindergarten through third grade to read at grade level. The Experience Corps model is a proven intervention with measurable benefits for students, as well as positive mental and physical health benefits for the older volunteers who tutor the children.

Impact Areas and Other Programs target the vast and multifaceted daily challenges that so many low-income vulnerable older adults face. The Foundation's efforts target four interrelated priorities where action will have the greatest impact: empowering people to earn a living, making homes healthier and more affordable, creating a food secure nation and helping to build strong sustaining social bonds.

Legal Advocacy - The Foundation advocates in courts nationwide for the rights of people 50 and older, challenging discrimination and helping to protect older adults from injustice. These efforts – age and housing discrimination, fraud, benefits, employee benefits, health and long-term care - ensure people 50 and older have a voice in the laws and policies that affect their daily lives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of AARP Foundation, EC and the Institute (collectively, the "Foundation"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Foundation prepares its consolidated financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Foundation summarizes the costs of providing its various programs and other activities on a functional basis in the consolidated statements of activities. Accordingly, certain costs are allocated among program and supporting services based on specific identification or allocation methodologies.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors to function as quasi-endowment and operating reserves. The operating reserve is intended to provide funds to ensure the continued operation of the Foundation in the event of an unexpected interruption in revenue streams. The amount of this operating reserve is determined annually based on a formula approved by the Board.

Temporarily restricted – net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Permanently restricted – net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors.

Measure of Operations

All activities, except for investment returns in excess of amounts designated for operations, the change in value of charitable gift annuities and the inherent contribution of EC's net assets in 2015, are reported as change in net assets from operating activities within the consolidated statements of activities.

Cash and Cash Equivalents

Cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase. Cash and cash equivalents managed by the Foundation's investment managers as part of its long-term investment strategy are included in investments.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments in U.S. treasury securities, fixed income funds, equity funds and similar interests. The Foundation maintains its cash and cash equivalents in various bank accounts and money market funds that, at times, may exceed federally insured limits. The Foundation's cash and cash equivalent accounts have been placed with high credit quality financial institutions that are evaluated regularly. The Foundation has not experienced, nor does it anticipate, any losses with respect to such accounts. Cash held at individual institutions that exceeded federally insured limits, totaled approximately $10,400,000 and $6,700,000 at December 31, 2016 and 2015, respectively.

Contributions

The Foundation reports contributions as revenue when received or pledged by the donor. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

The Foundation reports contributions as temporarily restricted revenue if such gifts are restricted by the donor to a specific program and/or include an explicit or implied time restriction. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Gifts whose donor-stipulated purposes are met in the same year as received are reported as unrestricted revenue.

In-kind Contributions

The Foundation's contributed services primarily consist of services donated by AARP, Inc. (see Note 7) and the fair value of supervisory salaries donated to the Foundation's SCSEP program. These contributed services are recorded as both revenue and expenses in the consolidated statements of activities. Donated supervisory salaries of approximately $25,999,000 and $25,026,000 have been recognized for the years ended December 31, 2016 and 2015, respectively.

Approximately 35,000 volunteers provide tax preparation assistance under the Tax-Aide program. The Foundation has concluded that these donated services do not meet the requirements for recognition as contributed services under U.S. generally accepted accounting principles and, accordingly, are not reflected in the accompanying consolidated financial statements.

Grant Activity

Grant revenue is recognized to the extent allowable expenses are incurred. Amounts reported as grants receivable represent grant expenses incurred in advance of the receipt of funds. Grant funds received in advance of expenditures are reported as deferred revenue.

Allowance for Uncollectible Accounts

The carrying value of contributions and grants receivable is reduced by an appropriate allowance, if needed, for uncollectible accounts. The Foundation determines its allowance by considering a number of factors, including the length of time receivables are past due, the Foundation's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. The Foundation writes off contributions and grants receivables when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received. As of December 31, 2016 and 2015, management did not record an allowance for either contributions or grants receivable, as all balances were deemed collectible.

Investments

Investments are measured and reported at fair value. Changes in fair value are reported as investment income or loss in the consolidated statements of activities.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges as of the measurement date. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Foundation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

At December 31, 2016 and 2015, the carrying value of financial instruments such as cash equivalents, contributions and grants receivable, accounts payable and bonds payable approximated their fair value, based on the short-term maturities or floating interest rates of these instruments.

In 2015, the Financial Accounting Standards Board ("FASB") issued guidance amending the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share as a practical expedient. This guidance only amended disclosure requirements and did not have any impact on the Foundation's consolidated statements of financial position or consolidated statements of activities for the years presented.

Program-Related Investments, net

The Foundation makes program-related investments in order to achieve charitable purposes in alignment with the Foundation's mission. The Foundation's investments consist of programmatic loans bearing a below-market interest rate. Programmatic loans are measured at fair value at inception, and are initially recorded on a net basis to reflect a discount on loans receivable. The loss reserve estimate is reviewed on an annual basis and adjusted if collectability risk has significantly changed, based on the Foundation's understanding of the borrower's financial health and/or payment history. As of December 31, 2016 and 2015, management did not record an allowance for program-related investments, as all balances are deemed collectible (Note 4).

Charitable Gift Annuities

The Foundation has entered into a number of charitable gift annuity ("CGA") agreements with its donors. Under the terms of these agreements, the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time (usually the donor's lifetime) to the donor or to individuals or organizations designated by the donor.

At the inception of a CGA agreement, the excess of the fair value of assets received over the present value of annuity payments to be made to the donor or stated beneficiary is recognized as a charitable contribution. Subsequent changes to the present value of annuity payments are reported as change in value of charitable gift annuities on the consolidated statements of activities.

The assets held for all charitable gift annuities are reported within the charitable gift annuity investments category in the consolidated statements of financial position and are stated at fair value. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows, based on appropriate discount rates and mortality tables. Discount rates used range from 1.2% to 7.6%. The Foundation invests the charitable gift annuities in accordance with relevant state laws.

Property and Equipment, net

Property and equipment are stated at cost, less accumulated depreciation. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are 26 years for office space, 10 years for building improvements, and 3 years for equipment. Land is not subject to depreciation. Maintenance and repair costs are expensed as incurred.

Income Taxes

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of revenues and expenses and disclosures in the consolidated financial statements. Actual results could differ from these estimates.

3. INVESTMENTS AND CHARITABLE GIFT ANNUITY INVESTMENTS

The Foundation’s investment portfolio includes shares in AARP’s managed investment pools (“AARP pools”) and other investments owned directly by the Foundation including those investments pertaining to the Foundation’s charitable gift annuities.

The AARP pools were established to enable the participating organizations to invest on a coordinated basis, with a view of achieving long-term capital growth through investments in a diversified portfolio, and to reduce investment costs. The AARP pools consist of investments in treasury securities, equity securities, fixed income funds and institutional mutual funds. Each of these respective investment vehicles have readily determinable fair values or are fair valued at a net asset value per share, redeemable in a time frame of 60 days or less. The Foundation has the ability to redeem its investment within the AARP pools on demand with no redemption restrictions. The Foundation’s participation is governed by the Foundation’s board-approved investment policies.

During 2016, the Foundation divested a portion of its investments in the AARP pools, and reinvested the proceeds in equity securities, fixed income securities, institutional funds, private real estate funds and hedge funds interests in which are owned directly by the Foundation.

The composition of the Foundation's investments, as of December 31, 2016, was as follows (in thousands):

	Level 1	Level 2	Net Asset Value	Total
AARP Unitized Investment Pools:				
Core fixed income pool	$ -	$ 26,672	$ -	$ 26,672
Enhanced cash pool	-	7,034	-	7,034
Global equity pool	-	44,611	-	44,611
Total AARP Unitized Investment Pool	-	78,317	-	78,317
Investments owned directly by the Foundation, excluding Charitable Gift Annuity Investments:				
Equity securities and funds				
Emerging markets	-	-	2,713	2,713
Global and international	-	-	13,916	13,916
U.S. large-mid cap	-	-	31,693	31,693
U.S. small cap	-	-	1,844	1,844
Fixed income securities and funds				
Global and international	-	-	4,192	4,192
High yield	-	-	8,082	8,082
Intermediate term	-	-	39,864	39,864
U.S. corporate and investment grade	6,872	-	-	6,872
U.S. government and treasury securities	1,699	-	-	1,699
Hedge funds				
Multi-strategy	-	-	6,061	6,061
Equity long/short	-	-	7,973	7,973
Real assets				
Commingled real asset funds	-	-	7,753	7,753
Sub-total	8,571	-	124,091	132,662
Cash and cash equivalents held for investment				2,188
Total investments owned directly by the Foundation, excluding Charitable Gift Annuity Investments				134,850
Charitable Gift Annuity Investments:				
Equity securities and funds				
U.S. large-mid cap	2,845	-	-	2,845
U.S. small cap	139	-	-	139
Fixed income securities and funds				
Global and international	160	-	-	160
Intermediate term	1,890	-	-	1,890
Mortgage and asset-backed	-	110	-	110
Short term	464	-	-	464
U.S. government and treasury securities	205	-	-	205
Sub-total	5,703	110	-	5,813
Cash and cash equivalents held for investment				382
Total Charity Gift Annuity Investments				6,195
Total				$ 219,362

The composition of the Foundation's investments, as of December 31, 2015, was as follows (in thousands):

	Level 1	Level 2	Total
AARP Unitized Investment Pools:			
Non-U.S. equity pool	$ -	$ 16,425	$ 16,425
U.S. equity pool	-	17,109	17,109
Global equity pool	-	3,245	3,245
Real assets pool	-	2,070	2,070
Core fixed income pool	-	36,244	36,244
Diversified fixed income pool	-	6,154	6,154
Enhanced cash pool	-	992	992
Sub-total - Foundation's share of AARP pools	-	82,239	82,239
Charitable Gift Annuity Investments:			
U.S. treasury securities	225	-	225
Mortgage-backed fixed income securities	-	135	135
U.S. corporate fixed income securities	1,658	-	1,658
Emerging market fixed income securities	202	-	202
Commodities fund	131	-	131
International equity securities	1,555	-	1,555
Emerging market equity securities	245	-	245
Large-mid cap equity securities	1,532	-	1,532
Small cap equity securities	274	-	274
Sub-total	5,991	135	5,957
Cash and cash equivalents held for investments			169
Sub-total - Charitable gift annuity investments			6,126
Total			$ 88,365

The Foundation invested in various institutional mutual funds, hedge funds and private real estate funds. These funds are not available to retail investors and are not publicly traded. The fair value estimates of these funds are based on NAV as provided by the respective investment managers. Because the Foundation uses NAV as a practical expedient for fair value, these investments are excluded from the fair value hierarchy.

Information with respect to redemption terms, strategies, risks, and funding commitments for these investments is as follows (in thousands):

	2016 Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:				
U.S. large-mid cap equity (a)	$ 31,693	Daily	2 days	n/a
U.S. small cap equity (b)	1,844	Daily	2 days	n/a
Emerging markets equity (c)	2,713	Semi-monthly	2 days	n/a
Global and international equity (d)	13,916	Semi-monthly	2 days	n/a
Global and international fixed income (e)	4,192	Quarterly	30 days	n/a
U.S. fixed income - intermediate term (f)	39,864	Daily	None or 2 days	n/a
High-yield (g)	8,082	Monthly	10 days or 45 days	n/a
Hedge funds:				
Multi-strategy (h)	6,061	Semi-monthly, monthly	60 - 75 days	None
Equity long/short (i)	7,973	Monthly, quarterly	30 days	Lock-up provisions range from none to 1 year
Real assets and commodity funds:				
Commingled real asset funds (j)	7,753	Daily	None	n/a
	$ 124,091			

(a) This category is invested in one institutional mutual fund. The fund employs a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.

(b) This category is invested in one institutional mutual fund. The fund employs a passive investment strategy seeking to replicate the performance of a small-cap benchmark.

(c) This category is invested in one institutional mutual fund. The fund employs a passive investment strategy seeking to replicate the performance of an emerging market benchmark.

(d) This category is invested in one institutional mutual fund. The fund, which allows for semi-monthly redemptions and purchases, employs a passive investment strategy seeking to replicate the performance of a global, developed market index.

(e) This category is invested in one fixed income fund. The fund is actively managed and seeks a strategy to exceed the performance of a global, short-term index. The fund manager is given wide latitude under mutually agreed upon investment guidelines to invest in an array of investment vehicles with short-term maturities.

(f) This category is managed by three fund managers. One manager employs four different passive funds in an effort to replicate the performance of a well-known fixed income index. The other managers employ various strategies to emulate the duration of intermediate fixed income securities, with one manger utilizing a “core plus” strategy with longer durations.

(g) This category is managed by two fund managers that invest in high-yield bonds.

(h) This category includes investments in several hedge funds that use multiple strategies to obtain absolute returns and long-term capital appreciation. The investment strategies include, but are not limited to, relative value, event driven, risk or merger arbitrage, long/short equity, convertible/derivative arbitrage, capital structure arbitrage and credit and structured credit opportunities. The funds invest in equity securities, debt securities, derivatives, and other financial instruments.

(i) This category includes hedge funds that invest in equity securities that use long/short strategies. These funds invest in securities of both U.S. and foreign issuers and invest in a wide range of instruments including, but not limited to, equity, futures, derivatives and debt securities to achieve long-term capital appreciation.

(j) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversifications outside of equities and fixed income investments, and finally, additional sources of absolute return and income. During periods of stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.

As of December 31, 2016, the Foundation has committed to contributing up to $25 million to a commingled real estate fund. The Foundation did not have any other unfunded commitments associated with its investment portfolio.

Investment return for the years ended December 31, 2016 and 2015 is summarized as follows (in thousands):

	2016	2015
Interest and dividends	$ 3,602	$ 1,733
Net realized and unrealized gain (loss)	10,593	(2,338)
Total	$ 14,195	$ (605)

4. PROGRAM-RELATED INVESTMENTS, NET

Program related investments presented in the consolidated statements of financial position represent various below-market-rate programmatic loans with outstanding principal balances totaling approximately $7,672,000 and $7,678,000 as of December 31, 2016 and 2015, respectively. The interest rate on these programmatic loans was 2% for each of the years ended December 31, 2016 and 2015. The loans are individually monitored to determine the net realizable value based on an evaluation of recoverability. In 2016, the Foundation received principal repayments in the amount of approximately $6,000. No principal repayments were due or were received during the year ended December 31, 2015.

Loans receivable, at the present value of expected cash flows, were scheduled for collection as of December 31, 2016 and 2015 as follows (in thousands):

	2016	2015
2017	$ 47	$ 89
2018	125	89
2019 - 2026	7,500	7,500
	7,672	7,678
Less: present value discount	(2,154)	(2,397)
Total program-related investments, net	$ 5,518	$ 5,281

Management has reviewed the collectability of all programmatic loans and has concluded that all are fully collectible. Consequently, no allowance for uncollectible loans has been recorded for the years ended December 31, 2016 and 2015, respectively. The Foundation has a total of seven (7) loans outstanding at an average face amount of approximately $1,096,000 and $1,097,000 as of December 31, 2016 and 2015, respectively. The average carrying amount of each loan totaled approximately $788,000 and $754,000, as of December 31, 2016 and 2015, respectively.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2016 and 2015 were expected to be received as follows (in thousands):

	2016	2015
Within one year	$ 2,078	$ 623
Between two and five years	40	60
Thereafter	260	260
Total	$ 2,378	$ 943

6. GRANTS RECEIVABLE

Grants receivable consisted of amounts due from the following sources as of December 31, 2016 and 2015 (in thousands):

	2016	2015
U.S. Department of Labor	$ 5,726	$ 5,716
Internal Revenue Service	1,676	107
Corporation for National and Community Service	852	1,037
Other	857	557
Total	$ 9,111	$ 7,417

7. RELATED-PARTY TRANSACTIONS

Contributions

AARP, Inc. made contributions to the Foundation totaling approximately $135,778,000 and $19,812,000 for the years ended December 31, 2016 and 2015, respectively. The contribution in 2016 included a transfer of investments valued at $115,090,000, from AARP, Inc. to the Foundation to establish a permanently restricted endowment fund (Note 16). In addition, AARP, Inc. contributed donated services valued at approximately $29,874,000 and $26,998,000 for the years ended December 31, 2016 and 2015, respectively.

AARP, Inc. contributions represented approximately 49% and 22% of the Foundation's total operating revenue for the years ended December 31, 2016 and 2015, respectively.

Postretirement Health Benefits Obligation

The Foundation participates in the AARP postretirement health benefit program and the AARP Employees' Welfare Plan. A 1997 resolution by the AARP, Inc. Board of Directors stated AARP, Inc.'s intent to assume responsibility for postretirement health benefits relating to the Foundation's employees. AARP, Inc. currently funds these benefits as claims are received from eligible Foundation retirees.

Office Space

The Foundation's office space located within the AARP, Inc. headquarters building, is subject to certain shared facilities costs which are billed to the Foundation by AARP, Inc., including utilities, maintenance, security and building management. These costs totaled approximately $747,000 and $663,000 for the years ended December 31, 2016 and 2015, respectively.

Grants to AARP, Inc.

The Foundation has awarded grants to AARP, Inc. to further the Foundation's charitable purposes. Expenses of approximately $4,298,000 and $5,105,000 have been recognized for the years ended December 31, 2016 and 2015, respectively.

Insurance Premiums

The Foundation purchases certain insurance coverage from Andrus Insurance Fund, LLC, an affiliate of AARP, Inc. The Foundation's related insurance expense for the coverage purchased for the years ended December 31, 2016 and 2015 totaled approximately $1,977,000 and $1,293,000, respectively.

Due to/from Affiliates

Amounts reported as due to or from affiliates, included in the accompanying consolidated statements of financial position, arise principally from the activities described above, and are typically settled on a monthly basis.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is summarized as follows at December 31, 2016 and 2015 (in thousands):

	2016	2015
Land	$ 4,440	$ 4,440
Building and improvements	22,839	22,795
Equipment	2,222	2,174
	29,501	29,409
Accumulated depreciation	(10,938)	(9,480)
Property and equipment, net	$ 18,563	$ 19,929

9. BONDS PAYABLE

On October 21, 2004, the Foundation issued 30-year District of Columbia Variable Rate Revenue Bonds, Series 2004, in the amount of $25,000,000 to finance the purchase of office space in the AARP, Inc. headquarters building. The face value of the bonds is repayable in full on October 20, 2034. The bonds bear interest at a variable rate determined by the Remarketing Agent, based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The rates on December 31, 2016 and 2015, were 0.72% and 0.02%, respectively. Total interest expense incurred for the years ended December 31, 2016 and 2015 totaled approximately $106,000 and $10,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

The Foundation has obtained a letter of credit to secure repayment of the bonds. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of the bonds outstanding. There was no outstanding balance on the letter of credit as of December 31, 2016 and 2015. The Foundation's letter of credit expires October 21, 2020.

AARP, Inc. has entered into a Standby Bond Purchase Agreement with the Foundation and the issuer of the letter of credit to purchase all bonds in the event the Foundation defaults on the bonds under the terms and conditions of the agreement.

10. GRANT REVENUE

Grant revenue from the following sources was recognized for the years ended December 31, 2016 and 2015 (in thousands):

	2016	2015
U.S. Department of Labor	$ 74,094	$ 71,372
Internal Revenue Service	8,653	6,682
Corporation for National and Community Service	3,307	2,184
U.S. Department of Agriculture	792	389
Other U.S. Government agencies	922	800
State agencies	393	249
Corporations and foundations	6,678	7,108
Total	$ 94,839	$ 88,784

The continuation of grant-funded programs beyond the expiration dates of current agreements is subject to future funding decisions by sponsoring agencies. The Foundation anticipates that the U.S. Department of Labor and IRS grants will be renewed.

11. ALLOCATION OF JOINT COSTS

In 2016 and 2015, the Foundation conducted direct mail campaigns that included requests for contributions, as well as program components. The costs associated with the development and dissemination of such mailings are allocated among the functional expense categories benefited, particularly impact areas and other programs, on a basis of the extent of content attributable to each respective function. These joint costs were allocated as follows (in thousands):

	2016	2015
Fundraising	$ 8,441	$ 7,921
Program services	4,166	4,206
Total	$ 12,607	$ 12,127

12. EMPLOYEE HEALTH CARE BENEFITS

The Foundation participates with other AARP affiliates in the AARP Employees' Welfare Plan, which provides certain health care and other welfare benefits to active employees. The Welfare Plan receives contributions from all participating entities to provide benefits, based on expected costs of providing these benefits. Expenses incurred by the Foundation for health care benefits totaled approximately $2,763,000 and $2,986,000 for the years ended December 31, 2016 and 2015, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2016 and 2015 totaled approximately $316,000 and $315,000, respectively, and is included as a component of accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

13. DEFINED-BENEFIT PENSION PLAN

The Foundation participates with other AARP affiliates in the AARP Employees' Pension Plan (the "Plan"), a single employer, non-contributory defined-benefit pension plan sponsored by AARP, Inc. The Plan covers all Foundation employees after they meet specified eligibility requirements.

All actuarially determined liabilities and assets relating to accrued pension are recorded on the books of AARP, Inc. Contributions to the Plan will be recorded as expenses in the year in which the contributions are due.

There were no employer contributions by the Foundation to the Plan in 2016 and 2015. The Foundation will not be required to make a contribution to the pension plan in 2017.

14. DEFINED-CONTRIBUTION PLAN

The Foundation participates in a single-employer defined-contribution plan known as the AARP Employees' 401(k) Plan. To participate in the 401(k) Plan, an employee must be at least 18 years of age and have been employed for a minimum of one month of continuous service with the Foundation.

The Foundation makes contributions to the 401(k) Plan for its employees, matching employee contributions at 100% of the first 3%, and 50% of the next 2% of employee compensation up to the maximum limits allowed by law.

Employer contributions totaled approximately $949,000 and $965,000 for the years ended December 31, 2016 and 2015, respectively.

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as follows at December 31, 2016 and 2015 (in thousands):

	2016	2015
Purpose-restricted:		
Isolation		
Other programs	$ -	$ 160
Total purpose-restricted	56	63
	56	223
Time-restricted		
Total	2,393	943
	$ 2,449	$ 1,166

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors or by having met the time requirements during the years ended December 31, 2016 and 2015 as follows (in thousands):

	2016	2015
Purpose-restricted releases:		
Hunger	$ -	$ 25
Isolation	160	-
Other programs	33	31
Total purpose-restricted releases	193	56
Time-restricted releases	550	623
Total	$ 743	$ 679

16. ENDOWMENTS

The Foundation's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments).

Interpretation of Relevant Law

The Foundation has interpreted the District of Columbia "Uniform Prudent Management of Institutional Funds Act of 2007" (the "Act") as requiring the Foundation, absent of explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligations to preserve the value of the endowment and its obligations to use the endowment to achieve the purposes for which it was donated. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanently restricted endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required by the applicable donor gift instrument.

Permanently restricted endowment

In January 2016, the Foundation received a contribution of approximately $115,090,000 from AARP, Inc. to establish a permanently restricted endowment fund. In accordance with the terms of the donor agreement, the Foundation is required to add all investment income and gains to the balance of this endowment fund until such time as established by the donor.

Board designated quasi-endowment

The Foundation's unrestricted net assets include amounts designated by its Board of Directors to function as a quasi-endowment fund.

In connection with its quasi-endowment fund, the Board has adopted a spending policy, which permits an annual transfer to operating funds of up to 5% of the previous 12 quarters' average quasi-endowment fund balance.

Assets of both the donor-restricted and quasi-endowment funds are invested in a broadly diversified portfolio spread over multiple asset classes.

The following tables summarize endowment net asset composition by type of fund as of December 31, 2016 and 2015 (in thousands):

	2016		
	Unrestricted	Permanently Restricted	Total
Donor restricted (endowment)	$ -	$ 123,041	$ 123,041
Board designated (quasi-endowment)	18,611	-	18,611
Total	$ 18,611	$ 123,041	$ 141,652

	2015		
	Unrestricted	Permanently Restricted	Total
Donor restricted (endowment)	$ -	$ -	$ -
Board designated (quasi-endowment)	17,139	-	17,139
Total	$ 17,139	$ -	$ 17,139

Changes in endowment assets for the fiscal years ended December 31, 2016 and 2015 were as follows (in thousands):

	2016		
	Unrestricted	Permanently Restricted	Total
Endowment net assets, January 1	$ 17,139	$ -	$ 17,139
Contributions	-	115,090	115,090
Interest and dividends	282	1,344	1,626
Realized and unrealized gain	958	6,607	7,565
Designations	1,140	-	1,140
Appropriations for spending	(908)	-	(908)
Endowment net assets, December 31	$ 18,611	$ 123,041	$ 141,652

	2015
	Unrestricted
Endowment net assets, January 1	$ 17,983
Contributions	-
Interest and dividends	209
Realized and unrealized loss	(537)
Designations	337
Appropriations for spending	(853)
Endowment net assets, December 31	$ 17,139

17. INHERENT CONTRIBUTION

The Foundation acquired a controlling voting interest in EC during 2015. This transaction was effected without the transfer of consideration, and as such, the net assets of EC as of January 9, 2015, totaling approximately $774,000, were contributed to the Foundation and were recognized in the accompanying consolidated statements of activities. Details of the transaction follow:

Cash and cash equivalents	$ 1,028
Grants and contracts receivable	1,333
Contributions receivable	152
Prepaid expenses and other assets	163
Total assets	2,676
Accounts payable and accrued expenses	1,617
Deferred revenue	285
Total liabilities	1,902
Total net assets	$ 774

18. COMMITMENTS AND CONTINGENCIES

The Foundation is a party to various claims and potential legal actions. Management believes, based upon advice of counsel, that the disposition of these matters will not have a material effect on the consolidated financial position, changes in net assets or cash flows of the Foundation.

The Foundation receives a substantial portion of its revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the governments or their designees. Liabilities, if any, arising from such compliance audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a significant effect on the consolidated financial position, changes in net assets or cash flows of the Foundation.

The Foundation leases office space in a number of states to facilitate the local delivery of its programs, under short-term operating leases with various lease terms. Total rent expense incurred under operating leases totaled approximately $2,132,000 and $1,949,000 for the years ended December 31, 2016 and 2015, respectively.

19. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through the date its consolidated financial statements were available to be issued, March 16, 2017.

In January 2017, the Foundation received a permanently-restricted contribution of approximately $76,111,000 from AARP, Inc.

The Foundation is not aware of any other subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

AARP FOUNDATION

Consolidated Schedule of Functional Expenses

For the year ended December 31, 2016, with summarized comparative totals for the year ended December 31, 2015

(In thousands)

	Program Services						Supporting Services				
	SCSEP	Tax-Aide	Experience Corps	Impact Areas & Other Programs	Legal Advocacy	Total Program Services	Fundraising	Management and General	Total Supporting Services	2016 Total Expenses	2015 Total Expenses
Expenses:											
Enrollee wages and benefits	$ 58,549	$ -	$ -	$ -	$ -	$ 58,549	$ -	$ -	$ -	$ 58,549	$ 57,260
In-kind supervisory salaries	25,999	-	-	-	-	25,999	-	-	-	25,999	25,026
In-kind services from AARP, Inc.	6,512	677	2,150	3,619	853	13,811	6,631	9,432	16,063	29,874	26,998
Compensation and temporary labor	10,557	1,796	4,146	5,504	3,131	25,134	4,053	5,406	9,459	34,593	37,132
Printing and postage	88	823	64	4,521	15	5,511	10,307	39	10,346	15,857	15,020
Promotion	97	344	170	1,499	57	2,167	1,282	2,178	3,460	5,627	3,312
Volunteer stipends and reimbursements	17	4,428	1,158	37	-	5,640	3	40	43	5,683	5,711
Meetings and travel	778	791	321	2,701	81	4,672	155	360	515	5,187	3,856
Occupancy	2,057	39	287	260	112	2,755	95	176	271	3,026	2,832
Telecommunications	782	243	110	906	11	2,052	28	60	88	2,140	2,011
Office supplies and equipment	1,267	2,610	112	121	43	4,153	32	35	67	4,220	3,004
Consulting and professional services	229	187	759	3,137	5	4,317	899	893	1,792	6,109	6,954
Data processing	588	252	53	449	1	1,343	749	84	833	2,176	2,113
Depreciation and amortization	148	71	212	318	206	955	165	355	520	1,475	1,515
Insurance and taxes	44	20	77	72	57	270	47	95	142	412	399
Interest	11	5	14	18	15	63	20	23	43	106	10
Grant awards	-	-	1,808	14,786	-	16,594	-	29	29	16,623	12,153
Miscellaneous	199	11	183	168	164	725	238	80	318	1,043	1,030
Total expenses	$ 107,922	$ 12,297	$ 11,624	$ 38,116	$ 4,751	$ 174,710	$ 24,704	$ 19,285	$ 43,989	$ 218,699	$ 206,336

This schedule should be read in conjunction with the Report of Independent Certified Public Accountants and the accompanying consolidated financial statements and notes thereto.