

Consolidated Financial Statements Together with  
Report of Independent Certified Public Accountants

**AARP**

December 31, 2016 and 2015

# AARP

## TABLE OF CONTENTS

---

	<b>Page(s)</b>
Report of Independent Certified Public Accountants	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2016 and 2015	3
Consolidated Statement of Activities for the year ended December 31, 2016	4
Consolidated Statement of Activities for the year ended December 31, 2015	5
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015	6
Notes to Consolidated Financial Statements	7 - 32



Grant Thornton LLP  
1250 Connecticut Ave NW, Suite 400  
Washington, DC 20036-3531  
T 202.296.7800  
F 202.833.9165  
[GrantThornton.com](http://GrantThornton.com)  
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grant-thornton-us)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
**AARP, Inc.:**

We have audited the accompanying consolidated financial statements of AARP, Inc. and affiliates (collectively, "AARP"), 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 AARP'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 AARP'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, Inc. 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.

*Grant Thornton LLP*

Washington, D.C.

March 16, 2017

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

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 427,909	\$ 497,081
Accounts receivable, net (Notes 2 and 5)	102,785	93,075
Prepaid expenses and other assets (Note 8)	56,823	47,977
Investments (Notes 2 and 4)	2,972,734	2,713,441
Property and equipment, net (Notes 2 and 6)	<u>309,328</u>	<u>326,249</u>
Total assets	<u>\$ 3,869,579</u>	<u>\$ 3,677,823</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 187,251	\$ 163,302
Insurance premiums payable (Notes 3 and 4)	1,130,429	1,098,865
Deferred revenue and other liabilities (Note 2)	17,542	21,261
Deferred membership dues (Note 2)	535,863	531,173
Accrued pension liability (Note 10)	235,319	266,849
Accrued postretirement health benefits (Note 11)	124,590	99,028
Notes payable (Note 7)	<u>199,251</u>	<u>199,222</u>
Total liabilities	<u>2,430,245</u>	<u>2,379,700</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated (Note 2)	1,096,446	425,251
Board designated (Notes 2 and 14)	<u>340,422</u>	<u>871,596</u>
Total unrestricted net assets	1,436,868	1,296,847
Temporarily restricted (Note 2)	<u>2,466</u>	<u>1,276</u>
Total net assets	<u>1,439,334</u>	<u>1,298,123</u>
Total liabilities and net assets	<u>\$ 3,869,579</u>	<u>\$ 3,677,823</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Membership dues (Note 2)	\$ 299,219	\$ -	\$ 299,219
Royalties (Notes 2 and 3)	880,148	-	880,148
Publications advertising (Note 2)	150,596	-	150,596
Grant revenue (Notes 2 and 9)	97,348	-	97,348
Program income (Note 2)	73,960	-	73,960
Contributions (Note 2)	96,961	2,026	98,987
Other	4,719	-	4,719
Net assets released from restrictions	836	(836)	-
Total operating revenues	<u>1,603,787</u>	<u>1,190</u>	<u>1,604,977</u>
<b>OPERATING EXPENSES</b>			
Program services:			
Community Engagement and Outreach	431,807	-	431,807
Publications and Communications	343,626	-	343,626
Membership Engagement	231,123	-	231,123
Training and Education Programs	161,096	-	161,096
Total program services	<u>1,167,652</u>	<u>-</u>	<u>1,167,652</u>
Supporting services:			
Membership development	176,268	-	176,268
Management and general	256,005	-	256,005
Total supporting services	<u>432,273</u>	<u>-</u>	<u>432,273</u>
Total operating expenses	<u>1,599,925</u>	<u>-</u>	<u>1,599,925</u>
Change in net assets from operating activities	3,862	1,190	5,052
<b>NON-OPERATING ACTIVITY</b>			
Investment gain (Notes 2, 3 and 4)	185,087	-	185,087
Income taxes (Notes 2 and 8)	(5,627)	-	(5,627)
Pension and postretirement activity other than net periodic benefit cost (Notes 10 and 11)	(43,301)	-	(43,301)
Change in net assets	140,021	1,190	141,211
Net assets, beginning of year	<u>1,296,847</u>	<u>1,276</u>	<u>1,298,123</u>
Net assets, end of year	<u>\$ 1,436,868</u>	<u>\$ 2,466</u>	<u>\$ 1,439,334</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Membership dues (Note 2)	\$ 295,180	\$ -	\$ 295,180
Royalties (Notes 2 and 3)	838,649	-	838,649
Publications advertising (Note 2)	149,604	-	149,604
Grant revenue (Notes 2 and 9)	91,381	-	91,381
Program income (Note 2)	69,585	-	69,585
Contributions (Note 2)	92,885	264	93,149
Other	4,442	-	4,442
Net assets released from restrictions	913	(913)	-
Total operating revenues	<u>1,542,639</u>	<u>(649)</u>	<u>1,541,990</u>
<b>OPERATING EXPENSES</b>			
Program services:			
Community Engagement and Outreach	389,962	-	389,962
Publications and Communications	325,797	-	325,797
Membership Engagement	211,138	-	211,138
Training and Education Programs	163,162	-	163,162
Total program services	<u>1,090,059</u>	<u>-</u>	<u>1,090,059</u>
Supporting services:			
Membership development	160,527	-	160,527
Management and general	244,898	-	244,898
Total supporting services	<u>405,425</u>	<u>-</u>	<u>405,425</u>
Total operating expenses	<u>1,495,484</u>	<u>-</u>	<u>1,495,484</u>
Change in net assets from operating activities	47,155	(649)	46,506
<b>NON-OPERATING ACTIVITY</b>			
Investment loss (Notes 2, 3 and 4)	(20,435)	-	(20,435)
Income taxes (Notes 2 and 8)	(4,314)	-	(4,314)
Pension and postretirement activity other than net periodic benefit cost (Notes 10 and 11)	86,620	-	86,620
Change in net assets	<u>109,026</u>	<u>(649)</u>	<u>108,377</u>
Net assets, beginning of year	<u>1,187,821</u>	<u>1,925</u>	<u>1,189,746</u>
Net assets, end of year	<u>\$ 1,296,847</u>	<u>\$ 1,276</u>	<u>\$ 1,298,123</u>

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

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

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 141,211	\$ 108,377
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,293	50,448
Change in allowance for uncollectible accounts	(421)	532
Charges other than net periodic benefit cost	43,301	(86,620)
Net realized and unrealized (gain) loss on investments	(143,776)	60,441
Deferred income taxes	(664)	(179)
Changes in operating assets and liabilities:		
Accounts receivable	(9,289)	(9,324)
Prepaid expenses and other assets	(8,252)	7,612
Accounts payable and accrued expenses	23,949	(35,483)
Insurance premiums payable	31,564	70,441
Deferred revenue and other liabilities	(3,719)	2,716
Deferred membership dues	4,690	4,721
Accrued pension liability	(53,386)	22,295
Accrued postretirement health benefits	4,117	5,496
Net cash provided by operating activities	<u>86,618</u>	<u>201,473</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(40,273)	(66,405)
Proceeds from sale and maturities of investments	4,483,094	5,660,224
Purchases of investments	<u>(4,598,611)</u>	<u>(5,742,785)</u>
Net cash used in investing activities	<u>(155,790)</u>	<u>(148,966)</u>
Net (decrease) increase in cash and cash equivalents	(69,172)	52,507
Cash and cash equivalents, beginning of year	<u>497,081</u>	<u>444,574</u>
Cash and cash equivalents, end of year	<u>\$ 427,909</u>	<u>\$ 497,081</u>
<b>Supplemental disclosures:</b>		
Cash paid for interest	<u>\$ 9,720</u>	<u>\$ 9,435</u>
Cash paid for income taxes	<u>\$ 5,821</u>	<u>\$ 7,036</u>

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



**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**1. DESCRIPTION OF ORGANIZATIONS AND ACTIVITIES**

**AARP, Inc.**

AARP, Inc. was organized in 1958 as a District of Columbia not-for-profit corporation for the purpose of promoting the interests of older persons. AARP, Inc. is qualified as a tax-exempt social welfare organization under Section 501(c)(4) of the Internal Revenue Code (“IRC”). The mission of AARP, Inc. is to meet the needs and promote the independence, dignity, and purpose of persons 50 and older. The programs and activities of AARP, Inc. and its affiliates include education, advocacy, research, service programs, other social welfare activities, and charitable programs serving the needs of older persons.

AARP, Inc.’s programs, activities and operations are managed and supported primarily from its National Headquarters in Washington, D.C. AARP, Inc. and its affiliates also have offices in all fifty U.S. states, Washington, D.C., Puerto Rico and the U.S. Virgin Islands, as well as a membership processing center located in Lakewood, California.

**AARP Services, Inc.**

AARP Services, Inc. (“AARP Services”) is a wholly owned taxable subsidiary of AARP, Inc., and was incorporated in Delaware in 1998. AARP Services’ Board of Directors is composed of members appointed by AARP, Inc.’s Board of Directors.

Pursuant to an agreement with AARP, Inc., AARP Services is responsible for providing quality control services designed to ensure licensees of AARP’s intellectual property are using such property appropriately. AARP Services also provides membership development, new product development, institutional relationship services, media sales services and other services designed to support AARP’s efforts to select, improve and expand member benefits and services made available to AARP, Inc. members, and to improve the lives of the 50+ population. AARP Services receives fees from AARP, Inc. for performing these services. As part of the aforementioned agreement, AARP, Inc. granted to AARP Services a no fee license to use the AARP trademarks and service marks, to be used for specific, limited purposes under stringent terms and conditions. AARP Services also receives third-party consulting fees for marketing development and other services.

**AARP Insurance Plan**

The AARP Insurance Plan (the “Plan”), also referred to as the AARP Health Trust, is a grantor trust established in 1958 by an Agreement and Declaration of Trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members or for the general benefit, good and welfare of AARP, Inc. Insurance premiums collected by the Plan are paid directly by participants. At the direction of the third-party insurance carriers, certain agreed upon payments are made for royalties payable to AARP, Inc. The Plan is administered by a Board of Trustees appointed by the Board of Directors of AARP, Inc.

**AARP Foundation, AARP Institute and AARP Experience Corps**

AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. AARP Foundation is dedicated to serving vulnerable people 50+ by creating solutions that help them secure the essentials - food, housing, income and personal connection - and achieve their best life. AARP Foundation,

## **AARP**

### **Notes to Consolidated Financial Statements**

**December 31, 2016 and 2015**

---

an AARP, Inc. affiliate, is a qualified nonprofit organization under Section 501(c)(3) of the 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 principally from the federal government, AARP, Inc., foundations, corporations and individuals. AARP Foundation's Board of Directors is composed of members appointed by AARP, Inc.'s Board of Directors.

AARP Institute (the "Institute"), an affiliate of AARP Foundation, was organized in 1963 as a District of Columbia not-for-profit corporation. The Institute qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC.

AARP Experience Corps ("EC"), an affiliate of AARP Foundation, was incorporated in the District of Columbia in 2008. EC is a not-for-profit organization, qualified as tax-exempt under Section 501(c)(3) of the IRC, formed to engage experienced adults in high-impact community service and leadership activities and to promote the importance of the contributions these individuals make to their communities. These activities are funded primarily through federal and nonfederal grants and contributions from AARP, Inc. On January 9, 2015, the Foundation entered into an agreement with EC whereby the Foundation acquired a controlling voting interest in EC's Board of Directors.

AARP Foundation, the Institute and EC are collectively referred to as the "Foundation."

#### **Legal Counsel for the Elderly**

Legal Counsel for the Elderly ("LCE") was incorporated in the District of Columbia in 1980 for the purpose of providing free legal assistance and education to the elderly, primarily in the District of Columbia. LCE publishes manuals, conducts seminars on issues affecting the elderly, and operates legal services and long-term care ombudsman programs. LCE qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for LCE is obtained primarily through contributions from AARP, Inc., government grants, foundations, corporations and individuals. LCE's Board of Directors is comprised of seven members appointed by AARP, Inc.'s Chief Executive Officer.

#### **Other Affiliates**

AARP Andrus Insurance Fund LLC, a single-member LLC with AARP, Inc. as its sole member, was formed in 2007 to serve as a self-funding mechanism for the deductible portion of certain AARP, Inc. and affiliates' insurance coverage with third-party insurance carriers. In addition, various special purpose taxable affiliated entities own and operate the AARP, Inc. headquarters building located in Washington, D.C., the related parking garage facilities and a building in California. These properties are primarily occupied by AARP, Inc. and its affiliates.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of the entities listed in Note 1, collectively referred to as “AARP.”

All significant intercompany transactions have been eliminated in consolidation. These consolidated financial statements do not include the operations and accounts of more than 1,100 local chapters of AARP that are organized and operated as separate entities. AARP neither controls nor derives beneficial economic interest from these organizations, as defined by U.S. generally accepted accounting principles.

AARP summarizes the costs of providing and managing its various programs and supporting activities on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain operating costs are allocated among the benefiting program and supporting services, based on specific identification or appropriate allocation methodologies.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets 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 for specific purposes.

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

**Measure of Operations**

AARP reports as part of operations all activities except for any required provision for federal and state income taxes, investment income, pension and postretirement related changes other than net periodic benefit cost, and other items, if any, which are unusual or nonrecurring in nature.

**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. As of December 31, 2016 and 2015, \$305,400,000 and \$344,500,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

**Concentrations of Credit Risk**

Financial instruments that potentially subject AARP 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. AARP maintains its cash and cash equivalents in various bank accounts and money market funds that, at times, may exceed federally insured limits. AARP’s cash and cash equivalent accounts have been placed with high credit quality financial institutions. AARP has not experienced, nor does it anticipate, any losses with respect to such accounts.

# **AARP**

## **Notes to Consolidated Financial Statements**

### **December 31, 2016 and 2015**

---

#### **Accounts Receivable, net**

AARP estimates uncollectible amounts based on the aging of outstanding accounts receivable and management's estimate of their net realizable values. Accounts are written-off when deemed uncollectible.

#### **Investments**

Investments are reported at fair value. Changes in fair value are reported as investment income/loss in the accompanying 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. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service (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. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

Institutional mutual funds, hedge funds, private equity funds and private real estate funds are carried at net asset values as provided by the investment managers as of the reporting date. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. In 2016 and 2015, these estimated fair values represented approximately 58% and 52%, respectively, of total investments.

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 values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

#### **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). AARP 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.

# AARP

## Notes to Consolidated Financial Statements

### December 31, 2016 and 2015

---

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 nonactive 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, accounts receivable, accounts payable and variable rate debt approximates 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 AARP’s consolidated statements of financial position or consolidated statements of activities for the years presented.

#### **Property and Equipment, net**

Property and equipment are stated at cost. Computer software is composed of external and certain qualifying internal costs related to software development. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to thirty years. Maintenance and repair costs are expensed as incurred.

#### **Membership Dues**

Membership dues are deferred upon receipt and recognized as revenue ratably over the membership term of one, two, three or five years.

#### **Royalties**

Royalties are received from AARP branded third-party providers of member benefit programs, in return for the rights to use AARP’s intellectual property (including name, logo and membership information) in offering programs. These royalties are recognized as revenue as earned.

The service provider United Healthcare Corporation accounted for approximately 68% and 67% of total royalties earned in 2016 and 2015, respectively.

#### **Publications Advertising**

AARP sells advertising space in its major publications, which are provided to members without additional charge as part of their membership benefits. Advertising revenue is recognized as earned in the month of each publication’s issue date. AARP also sells advertising space on its website and in other e-channels. Digital advertising revenue is recognized from the delivery of click-based ads in the period in which a person clicks on the content.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**Grant Revenues**

The Foundation and LCE report activities under grant agreements as exchange transactions. Accordingly, grant-related revenue is recognized to the extent that allowable expenses are incurred under program agreements. Amounts reported as grants receivable represent grant program expenses incurred in advance of the receipt of funds. Funds received in advance of incurred grant program expenses are reported as deferred revenue and other liabilities in the accompanying consolidated statements of financial position. Federal funds are only received by the Foundation and LCE.

**Program Income**

Program income is comprised mainly of fees from providers for consulting services as well as fees from members for specific programs, such as driver safety classes. These fees are recognized as earned.

**Contributions and Fundraising Expense**

AARP reports contributions as revenue when received or pledged by the donor. Contributions are reported 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.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation and LCE, while advocacy contributions are received by AARP, Inc. Contributions also include in-kind contributed professional services with a fair value totaling \$26,267,000 and \$25,241,000 for the years ended December 31, 2016 and 2015, respectively.

Fundraising expenses, which are reported as part of management and general expenses within the accompanying consolidated statements of activities, totaled \$26,359,000 and \$27,021,000 for the years ended December 31, 2016 and 2015, respectively.

**Volunteer Services**

AARP and its members benefit from the efforts of many volunteers. These in-kind contributions by volunteers are not recorded as revenue in the accompanying consolidated financial statements because they do not meet the requirements for recognition under U.S. generally accepted accounting principles.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in other income (expenses) in the period that includes the enactment date.

AARP does not believe that there are any unrecognized tax benefits/liabilities that should be recorded.

# **AARP**

## **Notes to Consolidated Financial Statements**

### **December 31, 2016 and 2015**

---

AARP 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 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.

AARP is exempt from income tax under IRC section 501(c)(4), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. AARP 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. AARP has determined that there are no material uncertain tax positions that require recognition or disclosure in the accompanying consolidated financial statements.

#### **Advertising Expenses**

AARP expenses advertising costs as incurred except to the extent of any direct response marketing costs that qualify for capitalization. These costs include brand awareness, member acquisition and retention, member program marketing, and advocacy advertising. For the years ended December 31, 2016 and 2015, advertising expense totaled \$325,460,000 and \$277,535,000, respectively, and no costs were capitalized.

#### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Reclassifications**

Certain information in the fiscal 2015 consolidated financial statements has been reclassified to conform to the fiscal 2016 presentation. There were no changes in total assets, liabilities, net assets, revenues, expenses or changes in net assets as reflected in the fiscal 2015 consolidated financial statements.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**3. GRANTOR TRUST**

AARP established a grantor trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members or for the general benefit, good and welfare of AARP. Agreements between AARP, Inc., AARP Services, United Healthcare Corporation (“United”), Metropolitan Life Insurance Company (“MetLife”), Genworth Life Insurance Company (“Genworth”), and Aetna Life Insurance Company (“Aetna”) make certain types of insurance available to AARP, Inc. members.

The Plan, a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements referenced above, collections are remitted to third-party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc., which are reported as royalties in the accompanying consolidated statements of activities. AARP derived 56% and 55% of total royalties from the Plan for the years ended December 31, 2016 and 2015, respectively. Billing of insurance premiums and issuance of certificates of insurance to insured members is the responsibility of the third-party insurance carrier. The collection of premiums and submission of amounts due to the insurance carrier are classified as agency transactions and, as such, are not recorded as either revenue or expenses in the accompanying consolidated statements of activities. For the years ended December 31, 2016 and 2015, the Plan processed \$10.3 billion and \$9.6 billion, respectively, of premium payments from member participants.

The premiums are collected from insured members and are subsequently remitted to the third-party insurance carriers, and are invested and recorded as an offsetting liability, insurance premiums payable, in the accompanying consolidated statements of financial position. For the years ended December 31, 2016 and 2015, the Plan generated net investment income/(loss) of \$45,766,000 and (\$3,984,000), respectively, which is included in investment gain/(loss) in the accompanying consolidated statements of activities.

At December 31, 2016 and 2015, insurance premiums payable (in thousands) were comprised of the following:

	<u>2016</u>	<u>2015</u>
Premiums payable to the insurance underwriters	\$ 844,353	\$ 799,321
Payments received in advance	256,401	268,600
Unprocessed and partial payments	29,675	30,944
Total insurance premiums payable	<u>\$ 1,130,429</u>	<u>\$ 1,098,865</u>



**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

**4. INVESTMENTS**

Investments as of December 31, 2016 are summarized in the following table by their classification in the fair value hierarchy or net asset value (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Net Asset Value</u>
Investments:				
Equity securities and funds:				
Global and international	\$ 440,471	\$ 265,226	\$ -	\$ 175,245
U.S. small cap	66,878	45,572	-	21,306
Emerging markets	100,269	68,646	-	31,623
U.S. large-mid cap	527,076	161,566	-	365,510
Fixed income securities and funds:				
U.S. corporate and investment grade	261,731	95,877	165,854	-
Global and international	148,112	2,665	81,565	63,882
U.S. government and treasury securities	125,546	125,546	-	-
Mortgage and asset-backed	140,080	-	140,080	-
International government	5,534	-	5,534	-
Short-term	464	464	-	-
U.S. fixed income fund	526,809	21,768	-	505,041
High-yield	124,841	1,845	-	122,996
Municipal	6,193	-	6,193	-
Real assets and commodity funds:				
Commingled real asset funds	121,469	-	-	121,469
Commingled real estate funds - U.S.	66,735	-	-	66,735
Private real estate funds - U.S.	13,797	-	-	13,797
Hedge funds:				
Multi-strategy	88,789	-	-	88,789
Global macro	26,055	-	-	26,055
Equity long/short	47,702	-	-	47,702
Equity market neutral	15,679	-	-	15,679
Event driven/credit	24,380	-	-	24,380
Private equity funds:				
Private equity funds - U.S.	23,969	-	-	23,969
Private equity funds - Global	3,536	-	-	3,536
Total	2,906,115	<u>\$ 789,175</u>	<u>\$ 399,226</u>	<u>\$ 1,717,714</u>
Cash and cash equivalents held for investment	66,619			
Total investments	<u>\$ 2,972,734</u>			

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

Investments as of December 31, 2015 are summarized in the following table by their classification in the fair value hierarchy or net asset value (in thousands):

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Net Asset Value</b>
Investments:				
Equity securities and funds:				
Global and international	\$ 479,654	\$ 298,893	\$ -	\$ 180,761
U.S. small cap	83,930	51,559	-	32,371
Emerging markets	78,736	47,085	-	31,651
U.S. large-mid cap	422,686	4,311	-	418,375
Fixed income securities and funds:				
U.S. corporate and investment grade	246,353	1,340	245,013	-
Global and international	267,485	55,496	151,944	60,045
U.S. government and treasury securities	159,554	159,554	-	-
Mortgage and asset-backed	199,212	-	199,212	-
International government	11,287	-	11,287	-
Short-term	5,480	5,480	-	-
U.S. fixed income fund	336,810	-	-	336,810
High-yield	108,961	2,318	-	106,643
Municipal	8,251	-	8,251	-
Real assets and commodity funds:				
Commingled real asset funds	109,722	-	-	109,722
Commingled real estate funds - U.S.	42,523	-	-	42,523
Private real estate funds - U.S.	4,702	-	-	4,702
Commodity fund	131	131	-	-
Hedge funds:				
Multi-strategy	41,736	-	-	41,736
Global macro	29,798	-	-	29,798
Private equity funds:				
Private equity funds - U.S.	9,296	-	-	9,296
Private equity funds - Global	2,733	-	-	2,733
Total	2,649,040	<u>\$ 626,167</u>	<u>\$ 615,707</u>	<u>\$ 1,407,166</u>
Cash and cash equivalents held for investment	<u>64,401</u>			
Total investments	<u>\$ 2,713,441</u>			

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

Fixed income securities, other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such fixed income securities are based on observable market information rather than market quotes as of the measurement date. Accordingly, the estimates of fair value for such fixed income securities, as provided by the pricing service, are included in the fixed income securities amount disclosed in Level 2 of the hierarchy. The values of U.S. Treasury securities are disclosed in Level 1 of the hierarchy, based on unadjusted market prices as of the measurement date.

AARP's equity securities trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1 of the hierarchy.

AARP invests in various institutional mutual funds, hedge funds, private equity 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 investments are based on NAV as provided by the respective investment manager. Because AARP 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	Unfunded Commitments	2015 Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:						
U.S. large-mid cap equity (a)	\$ 365,510	n/a	\$ 418,375	daily	2 days	n/a
U.S. small cap equity (b)	21,306	n/a	32,371	daily	2 days	n/a
Emerging markets equity (c)	31,623	n/a	31,651	semi-monthly	2 days	n/a
Global and international equity (d)	175,245	n/a	180,761	semi-monthly or monthly	none or 2 days	n/a
Global and international fixed income (e)	63,882	n/a	60,045	monthly	30 days	n/a
U.S. fixed income fund (f)	505,041	n/a	336,810	daily	none, 1 or 2 days	n/a
High-yield (g)	122,996	n/a	106,643	monthly	10 days or 45 days	n/a
Hedge funds:						
Multi-strategy (h)	88,789	n/a	41,736	semi-monthly, monthly, quarterly, annually	45 - 90 days	lock-up provisions range from 2 to 3 years
Global macro (i)	26,055	n/a	29,798	monthly	2 - 90 days	lock-up provisions range from none to 1 year
Equity long/short (j)	47,702	n/a	-	monthly, quarterly	30 days	lock-up provisions range from none to 1 year
Equity market neutral (k)	15,679	n/a	-	monthly	90 days	None
Event driven/credit (l)	24,380	n/a	-	quarterly, bi-annually	45 - 60 days	lock-up provisions range from none to 2 years
Real assets and commodity funds:						
Commingled real asset funds (m)	121,469	n/a	109,722	daily	2 days	n/a
Commingled real estate funds - U.S. (n)	66,735	\$ 25,000	42,523	quarterly	45 - 90 days	n/a
Private real estate funds - U.S. (o)	13,797	42,354	4,702	n/a	n/a	n/a
Private equity funds:						
Private equity funds - U.S. (p)	23,969	75,705	9,296	n/a	n/a	n/a
Private equity funds - Global (q)	3,536	24,529	2,733	n/a	n/a	n/a
	<u>\$ 1,717,714</u>	<u>\$ 167,588</u>	<u>\$ 1,407,166</u>			

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

- (a) This category is invested in one institutional mutual fund. This 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. This 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 two institutional mutual funds. One 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. This fund represented approximately 93% of the investment class for the years ended December 31, 2016 and 2015. Another institutional fund, which allows for monthly redemptions and purchases, employs an active investment approach as it seeks to outperform the same index as the aforementioned passive fund.
- (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 manager 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 class 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 class invests in hedge funds that use directional strategies, such as long/short strategies. These funds use leverage and include global investments in a wide range of instruments including, but not limited to, equity, debt and derivatives to achieve long-term capital appreciation.
- (j) This class 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.
- (k) This class invests in a hedge fund which includes an equity-focused portfolio with sector-specific, market neutral sub-portfolios to achieve long-term appreciation. This hedge fund also employs various complementary equity-focused investment strategies and may also invest in convertible bonds and other credit-based instruments.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

- (l) This class invests in hedge funds that employ an event driven strategy. These funds are credit/debt-focused with the objective of earning superior risk-adjusted returns. These funds seek to exploit situations to invest in securities and financial instruments, mergers and acquisitions (or “risk”) arbitrage situations and convertible arbitrage situations, both in the U.S. and globally.
- (m) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protections 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.
- (n) This class includes commingled funds which invest in multi-family, industrial, retail and commercial real estate located in the U.S. with the objective of seeking attractive returns, primarily through income and to a less extent capital appreciation, while limiting downside risk. The funds have both relative and real return objectives.
- (o) This class includes investments in private real estate funds focused primarily on high-quality office, retail, multi-family and industrial real estate located in the largest U.S. markets. The investment objective of this class is income and capital appreciation. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 3 to 9 years.
- (p) This class includes investments in private equity funds with a focus on early through late stage U.S. companies with high potential growth, primarily in technology and healthcare related industries. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 3 to 14 years.
- (q) This class includes investments in a private equity fund which focuses on global investments including stressed and distressed opportunities as well as early-stage to later-stage companies with investments across geographies, industries and asset classes. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next 1 to 11 years.

Investment gain/(loss) for the years ended December 31, 2016 and 2015 was as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 41,311	\$ 40,006
Net realized and unrealized gain/(loss)	143,776	(60,441)
Total	<u>\$ 185,087</u>	<u>\$ (20,435)</u>

As of December 31, 2016 and 2015, \$840,000,000 and \$750,000,000 of consolidated investments, respectively, are held by the AARP Insurance Plan for the payment of member insurance premiums.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**5. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, as of December 31 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Royalties	\$ 61,707	\$ 59,652
Program fees	1,920	3,867
Publication advertising	14,040	12,265
Grants	9,552	10,803
Other	<u>15,868</u>	<u>7,211</u>
Accounts receivable, gross	103,087	93,798
Less: Allowance for doubtful accounts	<u>(302)</u>	<u>(723)</u>
Accounts receivable, net	<u>\$ 102,785</u>	<u>\$ 93,075</u>

**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, as of December 31 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Land	\$ 53,023	\$ 53,023
Buildings and improvements	271,941	288,294
Furniture and equipment	103,442	98,985
Computer software	218,772	203,807
Leasehold improvements	<u>11,873</u>	<u>12,701</u>
	659,051	656,810
Less: Accumulated depreciation and amortization	<u>(349,723)</u>	<u>(330,561)</u>
Property and equipment, net	<u>\$ 309,328</u>	<u>\$ 326,249</u>

**7. NOTES PAYABLE**

The carrying amounts of notes payable and other long-term debt as of December 31 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Fixed rate notes, maturing May 2031, net of discount of \$749 in 2016 and \$778 in 2015 (a)	\$ 124,251	\$ 124,222
Variable rate notes, maturing May 2031 (b)	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034 (c)	<u>25,000</u>	<u>25,000</u>
Total notes payable	<u>\$ 199,251</u>	<u>\$ 199,222</u>

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

The maturity dates of notes payable are as follows (in thousands):

2031	\$ 175,000
2034	<u>25,000</u>
	<u>\$ 200,000</u>

Total interest expense for the years ended December 31, 2016 and 2015 totaled \$9,789,000 and \$9,465,000, respectively.

**(a) Fixed Rate Notes**

On May 1, 2001, AARP, Inc. issued unsecured fixed rate notes in the aggregate amount of \$125,000,000 for permanent financing of the AARP, Inc. Headquarters Building which bear interest at 7.5%. Interest is payable semi-annually. Based on the borrowing rates currently available to AARP for fixed rate bonds with similar terms and average maturities, the fair value of the \$125,000,000 fixed rate debentures is approximately \$163,296,000 and \$166,768,000 as of December 31, 2016 and 2015, respectively.

**(b) Variable Rate Notes**

On May 1, 2001, AARP, Inc. issued unsecured variable rate notes in the amount of \$75,000,000, for permanent financing of the AARP, Inc. Headquarters Building. The variable rates were 0.83% and 0.38% at December 31, 2016 and 2015, respectively. Interest is payable monthly. On December 1, 2004, AARP made debt repayments of \$25,000,000 on the unsecured variable notes.

**(c) District of Columbia Variable Rate Revenue Bonds**

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 located within the AARP, Inc. Headquarters Building. 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 Foundation may elect at any time to convert to a fixed interest rate. As of December 31, 2016 and 2015, the notes had an interest rate of 0.72% and 0.02%, respectively.

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.

**Revolving Credit Facility**

On July 17, 2009, AARP, Inc. entered into an unsecured revolving credit facility with a maximum principal amount of \$50,000,000 from a commercial bank. Borrowings under the credit facility can take the form of a base rate loan, money market loan or a LIBOR rate loan. The base rate loan is charged interest at a commercial floating rate which is the higher of (a) the 30-day LIBOR Rate plus 2.50%, and (b) the Prime Rate, in the case of the Prime Rate, as in effect for such day, such rate to change as and when such Prime Rate changes. The money market loan is charged a rate of interest as offered by the lender from time to time for any single commercial borrowing for such periods as the lender, at its discretion, may make available. The LIBOR rate loan is charged interest at a floating LIBOR rate plus 50 basis points. The

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

credit facility expires on July 15, 2018. There were no credit facility borrowings for the years ended December 31, 2016 and 2015.

**Board Designated Sinking Fund**

In 2001, the AARP, Inc. Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes payable (Note 14). In order to ensure that the Sinking Fund can repay the notes payable, the AARP, Inc. Board of Directors has approved annual increases to the Sinking Fund so that it will be fully funded by 2031. The balance in the Sinking Fund as of December 31, 2016 and 2015 totaled \$140,000,000 and \$133,291,000, respectively, and the assets were included in investments in the accompanying consolidated statements of financial position.

**8. INCOME TAXES**

The significant components of the provision for income taxes were as follows for the years ended December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Current:		
Federal income tax	\$ 4,664	\$ 4,432
State income tax	<u>1,627</u>	<u>1,236</u>
Current income tax expense	<u>6,291</u>	<u>5,668</u>
Deferred:		
Federal income tax	(1,302)	(1,722)
State income tax	<u>638</u>	<u>368</u>
Deferred income tax expense (benefit)	<u>(664)</u>	<u>(1,354)</u>
Total income tax expense	<u>\$ 5,627</u>	<u>\$ 4,314</u>

The significant components of the net deferred tax asset, which is included in prepaid expenses and other assets in the accompanying statements of financial position at December 31, 2016 and 2015, were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Deferred income tax assets:		
Employee benefits	\$ 5,917	\$ 4,197
Accrued expenses	22	107
Deferred revenue	11,511	12,977
Capital loss carryforward	<u>991</u>	<u>-</u>
Total deferred income tax assets	<u>18,441</u>	<u>17,281</u>
Deferred income tax liability:		
Depreciation	(112)	384
Property tax expense	<u>(19)</u>	<u>(19)</u>
Total deferred income tax liability	<u>(131)</u>	<u>365</u>
Net deferred income tax asset	<u>\$ 18,310</u>	<u>\$ 17,646</u>



**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2016 and 2015 totaled \$5,821,000 and \$7,036,000, respectively, and consist entirely of estimated federal and state income tax payments.

**9. GRANT REVENUE**

The Foundation and LCE administer grants received from federal agencies and private organizations. The two largest grant programs are described as follows:

**Senior Community Service Employment Program (“SCSEP”)**

The SCSEP program provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level. The SCSEP program is primarily funded by the U.S. Department of Labor (“DOL”) with grants totaling \$74,100,000 and \$71,300,000 for the years ended December 31, 2016 and 2015, respectively. The current DOL commitment expires in June 2017. Management expects that this funding will be renewed.

**Tax Counseling for the Elderly (Tax-Aide)**

Tax-Aide provides volunteer assistance 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 AARP, Inc. and the Internal Revenue Service (“IRS”) totaling \$8,700,000 and \$6,700,000 for the years ended December 31, 2016 and 2015, respectively. The current IRS commitment expires in September 2017. Management expects that this funding will be renewed.

The continuation of all grant programs beyond expiration of the current agreements is subject to future commitment of funds by sponsoring agencies (Note 15).

**10. DEFINED BENEFIT PENSION PLAN**

Eligible employees of AARP participate in a noncontributory defined benefit pension plan called the AARP Employees’ Pension Plan (the “Pension Plan”). The Pension Plan covers all employees meeting eligibility service requirements. AARP’s funding policy is to contribute an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as actuarially determined, calculated on a level percentage of payroll costs basis, but not greater than the maximum tax deductible limit. Pension Plan assets are invested principally in equity and fixed income securities managed by outside fund managers.

In 2016 and 2015, employer contributions to the Pension Plan totaled \$97,750,000 and \$45,000,000, respectively. AARP was not required to make annual minimum contributions in 2016 or 2015. AARP does not intend to make a discretionary contribution to the Pension Plan in 2017.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

The components of net periodic pension benefit cost for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Service cost	\$ 32,581	\$ 37,607
Interest cost	45,247	43,330
Expected return on plan assets	(50,353)	(45,566)
Amortization of actuarial loss	16,889	31,881
Amortization of prior service cost	-	43
	<u>\$ 44,364</u>	<u>\$ 67,295</u>

The following sets forth the funded status of the Pension Plan and accrued pension liability shown in the accompanying consolidated statements of financial position at December 31 (in thousands):

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (942,948)	\$ (983,359)
Service cost	(32,581)	(37,607)
Interest cost	(45,247)	(43,330)
Actuarial (loss) gain	(50,797)	100,581
Benefits paid	<u>23,029</u>	<u>20,767</u>
Benefit obligation at end of year	<u>(1,048,544)</u>	<u>(942,948)</u>
Change in plan assets:		
Fair value at beginning of year	676,099	657,607
Actual return on plan assets	62,405	(5,741)
Contribution to the plan	97,750	45,000
Benefits paid	<u>(23,029)</u>	<u>(20,767)</u>
Fair value at end of year	<u>813,225</u>	<u>676,099</u>
Accrued pension liability	<u>\$ (235,319)</u>	<u>\$ (266,849)</u>

At December 31, 2016 and 2015, the accumulated benefit obligation totaled \$944,233,000 and \$851,016,000, respectively.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2016 and 2015 measurement dates are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.30 %	4.68 %
Future salary increases	4.00 %	4.00 %

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2016 and 2015 measurement dates were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.68 %	4.25%/4.10 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Future salary increases	4.00 %	4.00 %

From January 1, 2015 through March 31, 2015, the discount rate used to determine net periodic benefit cost was 4.25%. The discount rate was changed to 4.10% effective April 1, 2015 in response to a curtailment within the Pension Plan.

The following benefit payments, which reflect expected future service, are expected to be paid (in thousands):

2017	\$ 27,080
2018	29,451
2019	31,974
2020	34,880
2021	38,087
Years 2022 - 2026	239,988

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Net actuarial loss	\$ 233,593	\$ 211,736

Estimated amount to be amortized into net periodic benefit cost in 2017 is \$18,966,000 from net actuarial loss.

In order to determine an appropriate return on plan assets, AARP considers its current asset allocation along with historical and expected returns that can be achieved with the various asset types in the Pension Plan. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 7.5%.

The weighted average asset allocation for plan assets is as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Asset categories:		
Equity securities	60 %	60 %
Debt securities	34	35
Alternatives	5	4
Cash equivalents	1	1
	<u>100 %</u>	<u>100 %</u>

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

The targeted allocation of the investment assets in the Pension Plan is for equities to comprise 60% of the investment portfolio, debt securities to comprise 35%, and alternatives to comprise the remaining 5%. These targets are not intended to serve as a rigid constraint on the investment allocation.

The following chart sets forth the minimum and maximum positions for the various asset classes in the Pension Plan:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Asset class:			
Equity securities	50 %	60 %	70 %
Debt securities	30 %	35 %	40 %
Alternatives	0 %	5 %	10 %
Cash equivalents	0 %	0 %	1 %

As of December 31, 2016 and 2015, the fair value of AARP's Pension Plan assets by asset category within the fair value hierarchy was as follows (in thousands):

	<u>2016 Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Net Asset Value</u>
Investments:				
Equity securities and funds:				
U.S. large-mid cap	\$ 219,389	\$ 86,516	\$ -	\$ 132,873
U.S. small cap	50,021	50,021	-	-
Global and international	181,577	160,384	-	21,193
Emerging markets	33,192	-	-	33,192
Fixed income securities and funds:				
Global and international	100,640	50,260	664	49,716
Mortgage and asset-backed	32,571	-	342	32,229
U.S. corporate and investment grade	66,536	50,414	553	15,569
Emerging markets	15,984	12,190	-	3,794
U.S. government and treasury securities	21,009	-	-	21,009
Real return	9,107	-	-	9,107
Short-term	10,059	-	-	10,059
High-yield	15,871	10,547	-	5,324
Municipal	1,180	-	-	1,180
Commingled real asset funds	39,402	-	-	39,402
Balanced fund	8,997	-	-	8,997
	<u>805,535</u>	<u>\$ 420,332</u>	<u>\$ 1,559</u>	<u>\$ 383,644</u>
Cash and cash equivalents	<u>7,690</u>			
Total investments	<u>\$ 813,225</u>			

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

	<b>2015 Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Net Asset Value</b>
Investments:				
Equity securities and funds:				
U.S. large-mid cap	\$ 151,788	\$ 46,965	\$ -	\$ 104,823
U.S. small cap	43,057	43,057	-	-
Global and international	188,374	177,791	-	10,583
Emerging markets	16,653	-	-	16,653
Fixed income securities and funds:				
Global and international	92,705	46,540	1,248	44,917
Mortgage and asset-backed	21,074	-	137	20,937
U.S. corporate and investment grade	57,310	44,888	791	11,631
Emerging markets	15,050	10,363	-	4,687
U.S. government and treasury securities	11,667	-	-	11,667
Real return	10,070	-	-	10,070
Short-term	12,387	-	-	12,387
High-yield	15,051	10,396	-	4,655
Municipal	933	-	-	933
Commingled real asset funds	30,362	-	-	30,362
Balanced fund	5,488	-	-	5,488
	<u>671,969</u>	<u>\$ 380,000</u>	<u>\$ 2,176</u>	<u>\$ 289,793</u>
Total				
Cash and cash equivalents	4,130			
Total investments	<u>\$ 676,099</u>			

The fair values of the institutional mutual funds have been estimated using the net asset value per share of the investment. Information with respect to redemptions, strategies, risks and funding commitments for these investments as of December 31, 2016 and 2015 was as follows (in thousands):

	<b>2016 Fair Value</b>	<b>2015 Fair Value</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equity securities and funds:				
U.S. large - mid cap (a)	\$ 132,873	\$ 104,823	daily	2 days
Global and international fund (b)	21,193	10,583	semi-monthly	2 days
Emerging markets funds (c)	33,192	16,653	daily or semi-monthly	1 or 2 days
Fixed income securities and funds:				
Various sector funds (d)	102,670	79,705	daily	none
Global and international fund (e)	45,317	42,179	monthly	15 days
Balanced fund (f)	8,997	5,488	daily	none
Commingled real asset funds (g)	39,402	30,362	daily	2 days
	<u>\$ 383,644</u>	<u>\$ 289,793</u>		

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

- (a) This category is invested in two institutional mutual funds. One fund, representing 98% and 94% of the balance at December 31, 2016 and December 31, 2015, respectively, employs a passive investment strategy seeking to replicate the performance of a large-cap benchmark. The other fund employs a passive investment strategy to replicate the performance of a mid-cap benchmark.
- (b) This category is invested in one passive fund. The fund seeks to replicate the performance of a global, developed market index.
- (c) This category is invested in two institutional mutual funds. One fund is actively managed and seeks to provide returns in excess of a well-established international market index. The other fund is passively managed. Its benchmark is the same as the active fund.
- (d) This category is invested with one fund manager who employs different sector funds to obtain the highest performance possible. This fund manager is given wide latitude under mutually agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc.
- (e) This category is invested in one actively managed fund. The fund seeks to provide returns in excess of a well-established international, fixed income index.
- (f) This category is invested in a passively managed fund. The fund tracks an index, based upon the results from pension plans similar in size and asset exposure to AARP's Pension Plan. The objective of the fund manager is to meet the expected return of the index.
- (g) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protections 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.

The Pension Plan did not have any unfunded commitments related to the above investments as of December 31, 2016 and 2015.

**11. POSTRETIREMENT HEALTH BENEFITS**

All employees of AARP and its affiliates may become eligible for continuing health care benefits after retirement if they meet minimum age and service requirements and are covered by an AARP employee health insurance plan at the date of retirement. Healthcare benefits are provided through the AARP Employees' Welfare Plan (the "Welfare Plan").

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

The components of net periodic postretirement health benefit cost for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Service cost	\$ 2,744	\$ 3,135
Interest cost	4,693	4,517
Amortization of prior service credit	(654)	(666)
Curtailment	<u>-</u>	<u>1,211</u>
	<u>\$ 6,783</u>	<u>\$ 8,197</u>

As a result of a voluntary separation program, AARP had a curtailment charge of \$1,211,000 in 2015.

The following sets forth the changes in benefit obligations, changes in plan assets, and the composition of accrued postretirement benefit cost shown in the accompanying consolidated statements of financial position at December 31 (in thousands):

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (99,028)	\$ (98,954)
Service cost	(2,744)	(3,135)
Interest cost	(4,694)	(4,517)
Actuarial (loss) gain	(20,791)	6,276
Participant contributions	(697)	(681)
Benefits paid, net subsidy	3,364	3,381
Curtailment	<u>-</u>	<u>(1,398)</u>
Benefit obligation at end of year	<u>(124,590)</u>	<u>(99,028)</u>
Change in plan assets:		
Fair value at beginning of year	-	-
Employer contribution	2,667	2,700
Plan participants' contributions	697	681
Benefits paid	<u>(3,364)</u>	<u>(3,381)</u>
Fair value at end of year	<u>-</u>	<u>-</u>
Accrued postretirement health benefits	<u>\$ (124,590)</u>	<u>\$ (99,028)</u>

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

As of December 31, 2016 and 2015, the weighted average discount rates used in the actuarial valuation were as follows:

	<u>2016</u>	<u>2015</u>
End of year benefit obligation	4.31 %	4.68 %
Net periodic benefit cost	4.68 %	4.25%/4.11 %

From January 1, 2015 through March 31, 2015, the discount rate used to determine net periodic benefit cost was 4.25%. The discount rate was changed to 4.11% effective April 1, 2015 in response to a curtailment within the Welfare Plan.

For measurement purposes, the health care cost trend rate was 6.5% for 2016 and 2015 (the rate is assumed to decrease gradually to 5% in 2022 and remain level thereafter).

The following benefit payments are expected to be paid (in thousands):

2017	\$ 4,691
2018	5,038
2019	5,487
2020	5,354
2021	5,790
Years 2022 - 2026	36,367

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2016 and 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Net actuarial loss (gain)	\$ 11,052	\$ (9,739)
Prior service credit	(1,374)	(2,027)
	<u>\$ 9,678</u>	<u>\$ (11,766)</u>

Estimated amount to be amortized into net periodic benefit cost in 2017 is \$653,855 from prior service credit.

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. A 1% change in the assumed healthcare cost trend rate at December 31, 2016 would have resulted in a \$7,347,000 increase or an \$11,468,000 decrease in the accumulated postretirement benefit obligation, and a \$391,000 increase or a \$634,000 decrease in the 2016 aggregate service and interest cost.

A 1% change in the assumed healthcare cost trend rate at December 31, 2015 would have resulted in a \$6,564,000 increase or a \$9,441,000 decrease in the accumulated postretirement benefit obligation, and a \$433,000 increase or a \$728,000 decrease in the 2015 aggregate service and interest cost.



**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

**12. EMPLOYEE HEALTH CARE BENEFITS**

AARP operates under a “pay as you go” model for employee health benefits, with obligations being funded from general corporate assets. For the years ended December 31, 2016 and 2015, expenses for the AARP Welfare Plan for current health care benefits totaled \$23,120,000 and \$24,539,000, respectively. As of December 31, 2016 and 2015, AARP had a liability related to these benefits of \$2,970,000 and \$2,888,000, respectively, which was included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

**13. DEFINED CONTRIBUTION PLAN**

Effective January 1, 1998, AARP and certain affiliates participate in a single-employer defined contribution plan through 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.

AARP provides an employer contribution to the 401(k) Plan, which matches 100% of employee contributions up to 3% of employee compensation, and 50% of employee contributions for the next 2% of employee compensation, up to the maximum limit allowed by law. For the years ended December 31, 2016 and 2015, AARP employer contributions to this plan totaled \$10,717,000 and \$10,763,000, respectively.

**14. BOARD DESIGNATED UNRESTRICTED NET ASSETS**

Board designated unrestricted net assets at December 31, 2016 and 2015 were available to fund the following (in thousands):

	<u>2016</u>	<u>2015</u>
Debt retirement sinking fund	\$ 140,000	\$ 133,291
Investment earnings reserve	-	666,289
Foundation operating funds	196,129	67,996
LCE operating funds	<u>4,293</u>	<u>4,020</u>
Board designated net assets	<u>\$ 340,422</u>	<u>\$ 871,596</u>

**15. COMMITMENTS AND CONTINGENCIES**

**Lease Commitments**

AARP leases offices, information centers, and warehouse facilities in 96 locations in the U.S. and its territories under operating leases with various lease terms. Total rent expense incurred under operating leases totaled \$21,658,000 and \$20,590,000 in 2016 and 2015, respectively.

**AARP**  
**Notes to Consolidated Financial Statements**  
**December 31, 2016 and 2015**

---

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2016 were (in thousands):

2017	\$	22,935
2018		22,822
2019		15,081
2020		13,854
2021		12,345
2022 - 2027		<u>25,451</u>
Total	\$	<u>112,488</u>

**Contingencies**

The Foundation and LCE receive a majority of their 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. The 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 material effect on the financial position, changes in net assets or cash flow of the Foundation or LCE.

In the normal course of business, AARP is subject to various claims and lawsuits. Certain lawsuits may be covered, in full or in part, by external insurance coverage. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the consolidated financial statements of AARP.

**16. SUBSEQUENT EVENTS**

AARP evaluated its December 31, 2016 consolidated financial statements for subsequent events through March 16, 2017, the date the consolidated financial statements were available to be issued. AARP is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.