AARP

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors’ Report Thereon)
AARP
Consolidated Financial Statements
December 31, 2011 and 2010

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The Board of Directors
AARP, Inc.:

We have audited the accompanying consolidated statements of financial position of AARP, Inc. and affiliates (collectively, AARP) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of AARP management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AARP as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 23, 2012
AARP  
Consolidated Statements of Financial Position  
December 31, 2011 and 2010  
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (note 2(c))</td>
<td>$525,772</td>
<td>627,957</td>
</tr>
<tr>
<td>Accounts receivable, net (note 5)</td>
<td>70,826</td>
<td>67,027</td>
</tr>
<tr>
<td>Prepaid expenses and other assets (note 8)</td>
<td>39,801</td>
<td>36,587</td>
</tr>
<tr>
<td>Investments (note 4)</td>
<td>1,758,380</td>
<td>1,503,465</td>
</tr>
<tr>
<td>Property and equipment, net (note 6)</td>
<td>316,384</td>
<td>311,600</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$2,711,163</td>
<td>2,546,636</td>
</tr>
</tbody>
</table>

| **Liabilities:**         |              |              |
| Accounts payable and accrued expenses | $159,595     | 151,452      |
| Insurance premiums payable (note 3)     | 842,318      | 784,251      |
| Deferred revenue and other liabilities | 27,096       | 30,858       |
| Deferred membership dues                | 475,085      | 471,498      |
| Accrued pension liability (note 10)     | 148,775      | 89,856       |
| Accrued postretirement health benefits (note 11) | 80,516       | 73,353       |
| Notes payable (note 7)                  | 199,125      | 199,105      |
| **Total liabilities**          | $1,932,510   | 1,800,373    |

| **Net assets:**           |              |              |
| Unrestricted:            |              |              |
| Undesignated             | 328,803      | 325,592      |
| Board designated (note 14)| 444,892      | 411,396      |
| **Total unrestricted net assets** | 773,695    | 736,988      |
| Temporarily restricted (note 15) | 4,958       | 9,275        |
| **Total net assets**      | 778,653      | 746,263      |
| **Total liabilities and net assets** | $2,711,163 | 2,546,636 |

See accompanying notes to consolidated financial statements.
AARP
Consolidated Statement of Activities
Year ended December 31, 2011
(In thousands)

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership dues</td>
<td>$265,845</td>
<td>—</td>
</tr>
<tr>
<td>Royalties (note 3)</td>
<td>704,630</td>
<td>—</td>
</tr>
<tr>
<td>Publications advertising</td>
<td>129,407</td>
<td>—</td>
</tr>
<tr>
<td>Grant revenue (note 9)</td>
<td>100,744</td>
<td>—</td>
</tr>
<tr>
<td>Program income</td>
<td>44,086</td>
<td>—</td>
</tr>
<tr>
<td>Contributions (note 2(l))</td>
<td>94,640</td>
<td>1,675</td>
</tr>
<tr>
<td>Other</td>
<td>2,642</td>
<td>—</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>5,992</td>
<td>(5,992)</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>1,347,986</td>
<td>(4,317)</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programs and field services</td>
<td>322,634</td>
<td>—</td>
</tr>
<tr>
<td>Publications</td>
<td>173,568</td>
<td>—</td>
</tr>
<tr>
<td>Member services</td>
<td>315,534</td>
<td>—</td>
</tr>
<tr>
<td>Legislation and research</td>
<td>111,644</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total program services</strong></td>
<td>923,380</td>
<td>—</td>
</tr>
<tr>
<td>Management and general (note 2(l))</td>
<td>211,838</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total supporting services</strong></td>
<td>341,507</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>1,264,887</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets from operations</strong></td>
<td>83,099</td>
<td>(4,317)</td>
</tr>
<tr>
<td><strong>Nonoperating activity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income (notes 3 and 4)</td>
<td>17,911</td>
<td>—</td>
</tr>
<tr>
<td>Investment loss from sinking fund (notes 4 and 7)</td>
<td>(1,842)</td>
<td>—</td>
</tr>
<tr>
<td>Income taxes (note 8)</td>
<td>(5,808)</td>
<td>—</td>
</tr>
<tr>
<td>Charges other than net periodic benefit cost (notes 10 and 11)</td>
<td>(56,653)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>36,707</td>
<td>(4,317)</td>
</tr>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td>736,988</td>
<td>9,275</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$773,695</td>
<td>4,958</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
AARP
Consolidated Statement of Activities
Year ended December 31, 2010
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership dues</td>
<td>$ 247,895</td>
<td>—</td>
<td>247,895</td>
</tr>
<tr>
<td>Royalties (note 3)</td>
<td>679,534</td>
<td>—</td>
<td>679,534</td>
</tr>
<tr>
<td>Publications</td>
<td>122,572</td>
<td>—</td>
<td>122,572</td>
</tr>
<tr>
<td>Grant revenue (note 9)</td>
<td>144,326</td>
<td>—</td>
<td>144,326</td>
</tr>
<tr>
<td>Program income</td>
<td>48,838</td>
<td>—</td>
<td>48,838</td>
</tr>
<tr>
<td>Contributions (note 2(l))</td>
<td>48,325</td>
<td>4,959</td>
<td>53,284</td>
</tr>
<tr>
<td>Other</td>
<td>2,730</td>
<td>—</td>
<td>2,730</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>3,956</td>
<td>(3,956)</td>
<td>—</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>1,298,176</td>
<td>1,003</td>
<td>1,299,179</td>
</tr>
</tbody>
</table>

Operating expenses:
Program services:
Programs and field services 330,672 — 330,672
Publications 178,990 — 178,990
Member services 298,157 — 298,157
Legislation and research 75,920 — 75,920
| Total program services | 883,739 | — | 883,739 |

Supporting services:
Membership development 125,155 — 125,155
Management and general 186,373 — 186,373
| Total supporting services | 311,528 | — | 311,528 |

Total operating expenses 1,195,267 — 1,195,267
Change in net assets from operations 102,909 1,003 103,912

Nonoperating activity:
Investment income (notes 3 and 4) 126,411 — 126,411
Investment gain from sinking fund (notes 4 and 7) 10,305 — 10,305
Income taxes (note 8) (3,345) — (3,345)
Charges other than net periodic benefit cost (notes 10 and 11) (10,966) — (10,966)
| Change in net assets | 225,314 | 1,003 | 226,317 |

Net assets, beginning of year 511,674 8,272 519,946
| Net assets, end of year | $736,988 | 9,275 | 746,263 |

See accompanying notes to consolidated financial statements.
## AARP

**Consolidated Statements of Cash Flows**

*Years ended December 31, 2011 and 2010*

*(In thousands)*

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$32,390</td>
<td>226,317</td>
</tr>
<tr>
<td><strong>Adjustments to reconcile change in net assets to net cash provided by operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>37,366</td>
<td>33,778</td>
</tr>
<tr>
<td>(Recovery) reserve for uncollectible accounts</td>
<td>(73)</td>
<td>47</td>
</tr>
<tr>
<td>Charges other than net periodic benefit cost</td>
<td>56,653</td>
<td>10,966</td>
</tr>
<tr>
<td>Net loss (gain) on investments</td>
<td>30,391</td>
<td>(95,407)</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>1,901</td>
<td>(545)</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
<td>192,808</td>
<td>53,099</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>225,198</td>
<td>279,416</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(42,077)</td>
<td>(34,118)</td>
</tr>
<tr>
<td>Proceeds from sale and maturities of investments</td>
<td>1,021,245</td>
<td>671,885</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(1,306,551)</td>
<td>(993,782)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(327,383)</td>
<td>(356,015)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments on commercial bank borrowings</td>
<td>—</td>
<td>(13,750)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>—</td>
<td>(13,750)</td>
</tr>
<tr>
<td><strong>Net decrease in cash and cash equivalents</strong></td>
<td>(102,185)</td>
<td>(90,349)</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>627,957</td>
<td>718,306</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of year</strong></td>
<td>$525,772</td>
<td>627,957</td>
</tr>
</tbody>
</table>

**Supplemental disclosures:**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for interest</td>
<td>$9,796</td>
<td>10,221</td>
</tr>
<tr>
<td>Cash paid for income taxes</td>
<td>6,580</td>
<td>9,683</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
AARP

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(1) Description of Organizations and Activities

(a) 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, and an advertising sales office in New York City.

(b) AARP Services, Inc. and AARP Financial, Inc.

AARP Services, Inc. (AARP Services) is a wholly owned taxable subsidiary of AARP, Inc., and was incorporated in Delaware in 1998.

Pursuant to an agreement with AARP, AARP Services is responsible for providing quality control services designed to ensure that licensees of AARP’s intellectual property are using such property appropriately. AARP Services also provides membership development, new product development, institutional relationship services, and other services designed to support AARP’s efforts to select, improve and expand member benefits and services made available to AARP members, and to improve the lives of the 50+ population. AARP Services receives fees from AARP for performing these services.

AARP Financial, Inc. (AARP Financial) was incorporated in Delaware in September 2005, as a wholly owned taxable subsidiary of AARP Services. AARP Financial was formed to design, develop and manage AARP, Inc. branded financial services and related products. The company’s Board of Directors elected to discontinue operations as an investment advisor and administrator to the AARP Funds and AARP Portfolios; subsequently, AARP Financial deregistered as an investment advisor with the U.S. Securities and Exchange Commission effective October 26, 2010. The AARP Funds and AARP Portfolios were liquidated on September 30, 2010. Effective December 30, 2010, AARP Services assumed all rights, title, and interest in the assets and liabilities of AARP Financial and absorbed all remaining AARP Financial operations.

(c) AARP Insurance Plan

The AARP Insurance Plan (the Plan) 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. Insurance premiums collected by the Plan are paid directly by participants. At the direction of the third party insurance carriers, certain agreed
AARP

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

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.

(d) AARP Foundation and AARP Institute

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, an AARP 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), a wholly owned subsidiary 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 Foundation and the Institute are collectively referred to as the Foundation.

(e) 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.

(f) Other Affiliates

AARP Global Network was a limited liability company (LLC) formed as a joint international program. AARP Global Network ceased operations in 2011. 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 coverages with third party insurance carriers. Various special purpose taxable affiliated entities own and operate the AARP headquarters building located in Washington, D.C., the related parking garage facilities and buildings in California. These properties are primarily occupied by AARP, Inc. and its affiliates.
(2) **Summary of Significant Accounting Policies**

(a) **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. The consolidated financial statements do not include the operations and accounts of over 1,500 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 reasonable 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.

(b) **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Although actual results could differ from these estimates, management does not believe that such differences will be material.

(c) **Cash Equivalents**

Investments with original maturities of three months or less are reported as cash equivalents. As of December 31, 2011 and 2010, $207,000,000 and $170,000,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

(d) **Accounts Receivable**

AARP estimates uncollectible amounts based on the aging of outstanding accounts receivable and management’s estimate of their net realizable values.
AARP

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(e) Investments

Investments are measured and reported at fair value. Changes in fair value are reported as investment income 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).

Institutional mutual funds are carried at net asset values as provided by the investment managers. AARP management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. 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 2011 and 2010, the estimated fair values represented approximately 64% and 75%, 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 will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

(f) Property and Equipment

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. If the sum of the undiscounted expected future cash flows is less than the carrying amount of an asset, AARP recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. 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 30 years. Maintenance and repair costs are expensed as incurred.

(g) Membership Dues

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

(h) 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 mailing list) in offering programs. These royalties are recognized as revenue as earned.

The service provider United Healthcare Corporation accounted for 65% of total royalties earned in 2011 and 2010.
(i) **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.

(j) **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. Federal funds are only received by the Foundation and LCE.

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 significant effect on the financial position of the Foundation or LCE.

(k) **Program Income**
AARP receives service fees from providers of and participants in member programs, for consulting and specific program services. These fees are recognized as earned.

(l) **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 or include an explicit or implied time restriction.

Expiration 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 only received by AARP, Inc. Contributions also include in-kind contributed professional services totaling $36,622,000 and $18,500,000 for the years ended December 31, 2011 and 2010, respectively.

Fundraising expenses, which are reported as part of management and general expenses, were $20,660,000 and $18,077,000 for the years ended December 31, 2011 and 2010, 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 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 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.

**Measure of Operating Results**

AARP reports as operating all activities except for any required provision for federal and state income taxes, investment income and pension and post-retirement related charges other than net periodic benefit cost.

**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, 2011 and 2010, advertising expense was $187,490,000 and $146,751,000 respectively, and no costs were capitalized.

**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 AARP’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.
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, 2011 and 2010, the carrying value of financial instruments such as cash equivalents, accounts receivable, accounts payable and variable rate debt approximated their fair value, based on the short-term maturities or floating interest rates of these instruments. The fair values of investments, notes payable and fixed rate debt (with related swap agreements) are discussed in notes 4 and 7, respectively.

(r) Reclassifications

Certain reclassifications have been made to the 2010 reported amounts to conform to the 2011 presentation.

(3) Grantor Trust

AARP established a grantor trust for the purpose of making certain types of insurance available to its members through third party insurance carriers. 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 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 consolidated statements of activities. AARP derived 51% of total royalties from the Plan for each of the years ended December 31, 2011 and 2010. 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 on the accompanying consolidated statements of activities. For the years ended December 31, 2011 and 2010, the Plan processed $7.5 billion and $7.1 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 on the consolidated statements of financial position. For the years ended December 31, 2011 and 2010, the Plan experienced net investment income of $14,484,000 and $56,669,000, respectively, which is included in investment income in the accompanying consolidated statements of activities.
At December 31, 2011 and 2010, insurance premiums payable were comprised of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums payable to the insurance carriers</td>
<td>$611,399</td>
<td>577,421</td>
</tr>
<tr>
<td>Payments received in advance</td>
<td>211,622</td>
<td>184,920</td>
</tr>
<tr>
<td>Partial and unprocessed payments</td>
<td>19,297</td>
<td>21,910</td>
</tr>
<tr>
<td><strong>Total insurance premiums payable</strong></td>
<td><strong>$842,318</strong></td>
<td><strong>784,251</strong></td>
</tr>
</tbody>
</table>

(Continued)
(4) Investments

Investments as of December 31, 2011 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

<table>
<thead>
<tr>
<th>Investments:</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S Treasury securities</td>
<td>$65,925</td>
<td>65,925</td>
<td>—</td>
</tr>
<tr>
<td>Foreign Government fixed income securities</td>
<td>7,853</td>
<td>—</td>
<td>7,853</td>
</tr>
<tr>
<td>Mortgage-backed fixed income securities</td>
<td>114,774</td>
<td>—</td>
<td>114,774</td>
</tr>
<tr>
<td>U.S. corporate fixed income securities</td>
<td>206,457</td>
<td>7,555</td>
<td>198,902</td>
</tr>
<tr>
<td>International corporate fixed income securities</td>
<td>62,153</td>
<td>—</td>
<td>62,153</td>
</tr>
<tr>
<td>International equity securities</td>
<td>48,324</td>
<td>48,324</td>
<td>—</td>
</tr>
<tr>
<td>Emerging market equity securities</td>
<td>22,308</td>
<td>22,308</td>
<td>—</td>
</tr>
<tr>
<td>Large-mid cap equity securities</td>
<td>58,710</td>
<td>58,710</td>
<td>—</td>
</tr>
<tr>
<td>Small cap equity securities</td>
<td>46,549</td>
<td>46,549</td>
<td>—</td>
</tr>
<tr>
<td>Institutional mutual funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large-mid cap equity funds</td>
<td>193,552</td>
<td>—</td>
<td>193,552</td>
</tr>
<tr>
<td>International equity fund</td>
<td>119,394</td>
<td>—</td>
<td>119,394</td>
</tr>
<tr>
<td>Real asset funds</td>
<td>59,137</td>
<td>—</td>
<td>59,137</td>
</tr>
<tr>
<td>Emerging market income fund</td>
<td>9,755</td>
<td>—</td>
<td>9,755</td>
</tr>
<tr>
<td>Emerging equity fund</td>
<td>6,180</td>
<td>—</td>
<td>6,180</td>
</tr>
<tr>
<td>Fixed income sector funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term fund</td>
<td>14,387</td>
<td>—</td>
<td>14,387</td>
</tr>
<tr>
<td>Private ST floating II NAV fund</td>
<td>35,982</td>
<td>—</td>
<td>35,982</td>
</tr>
<tr>
<td>U.S. Government portfolio</td>
<td>129,343</td>
<td>—</td>
<td>129,343</td>
</tr>
<tr>
<td>Mortgage portfolio</td>
<td>240,930</td>
<td>—</td>
<td>240,930</td>
</tr>
<tr>
<td>Municipal portfolio</td>
<td>7,633</td>
<td>—</td>
<td>7,633</td>
</tr>
<tr>
<td>Real return bond fund</td>
<td>87,584</td>
<td>—</td>
<td>87,584</td>
</tr>
<tr>
<td>Private developing local market fund</td>
<td>3,383</td>
<td>—</td>
<td>3,383</td>
</tr>
<tr>
<td>Private emerging markets bond fund</td>
<td>22,192</td>
<td>—</td>
<td>22,192</td>
</tr>
<tr>
<td>International portfolio</td>
<td>61,428</td>
<td>—</td>
<td>61,428</td>
</tr>
<tr>
<td>High yield portfolio</td>
<td>13,013</td>
<td>—</td>
<td>13,013</td>
</tr>
<tr>
<td>Investment grade corporate portfolio</td>
<td>106,449</td>
<td>—</td>
<td>106,449</td>
</tr>
<tr>
<td>Asset-backed fund</td>
<td>14,985</td>
<td>—</td>
<td>14,985</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,758,380</td>
<td>249,371</td>
<td>1,509,009</td>
</tr>
</tbody>
</table>
AARP

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Investments as of December 31, 2010 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

<table>
<thead>
<tr>
<th>Investments:</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S Treasury securities</td>
<td>$25,747</td>
<td>25,747</td>
<td>—</td>
</tr>
<tr>
<td>Mortgage-backed fixed income securities</td>
<td>57,016</td>
<td>—</td>
<td>57,016</td>
</tr>
<tr>
<td>U.S. corporate fixed income securities</td>
<td>112,852</td>
<td>6,906</td>
<td>105,946</td>
</tr>
<tr>
<td>International corporate fixed income securities</td>
<td>48,244</td>
<td>—</td>
<td>48,244</td>
</tr>
<tr>
<td>International equity securities</td>
<td>73,892</td>
<td>73,892</td>
<td>—</td>
</tr>
<tr>
<td>Emerging market equity securities</td>
<td>27,135</td>
<td>27,135</td>
<td>—</td>
</tr>
<tr>
<td>Small cap equity securities</td>
<td>29,621</td>
<td>29,621</td>
<td>—</td>
</tr>
<tr>
<td>Institutional mutual funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large-mid cap equity funds</td>
<td>247,487</td>
<td>—</td>
<td>247,487</td>
</tr>
<tr>
<td>International equity fund</td>
<td>98,373</td>
<td>—</td>
<td>98,373</td>
</tr>
<tr>
<td>Real asset funds</td>
<td>50,798</td>
<td>—</td>
<td>50,798</td>
</tr>
<tr>
<td>Emerging market income fund</td>
<td>10,014</td>
<td>—</td>
<td>10,014</td>
</tr>
<tr>
<td>Fixed income sector funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term fund</td>
<td>14,626</td>
<td>—</td>
<td>14,626</td>
</tr>
<tr>
<td>Private ST floating II NAV fund</td>
<td>11,692</td>
<td>—</td>
<td>11,692</td>
</tr>
<tr>
<td>U.S. Government portfolio</td>
<td>130,029</td>
<td>—</td>
<td>130,029</td>
</tr>
<tr>
<td>Mortgage portfolio</td>
<td>298,679</td>
<td>—</td>
<td>298,679</td>
</tr>
<tr>
<td>Municipal portfolio</td>
<td>16,666</td>
<td>—</td>
<td>16,666</td>
</tr>
<tr>
<td>Real return bond fund</td>
<td>29,127</td>
<td>—</td>
<td>29,127</td>
</tr>
<tr>
<td>Private developing local market fund</td>
<td>5,147</td>
<td>—</td>
<td>5,147</td>
</tr>
<tr>
<td>Private emerging markets bond fund</td>
<td>21,995</td>
<td>—</td>
<td>21,995</td>
</tr>
<tr>
<td>International portfolio</td>
<td>52,349</td>
<td>—</td>
<td>52,349</td>
</tr>
<tr>
<td>High yield portfolio</td>
<td>7,305</td>
<td>—</td>
<td>7,305</td>
</tr>
<tr>
<td>Investment grade corporate portfolio</td>
<td>120,042</td>
<td>—</td>
<td>120,042</td>
</tr>
<tr>
<td>Asset-backed fund</td>
<td>14,629</td>
<td>—</td>
<td>14,629</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,503,465</strong></td>
<td><strong>163,301</strong></td>
<td><strong>1,340,164</strong></td>
</tr>
</tbody>
</table>

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. 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 based on unadjusted market prices.

AARP’s equity securities trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1.

AARP invests in several institutional mutual funds. These funds are not available to retail investors and are not publicly traded however, the underlying investments in these funds are publicly traded. The fair value
estimates of such institutional mutual funds are based on net asset value (NAV) as provided by the investment manager. Because AARP has the ability to redeem its interest in these investments in the near term, such investments are classified as Level 2.

Information with respect to redemption terms, strategies, risks and funding commitments for these investments as of December 31, 2011 and 2010 is as follows (thousands):

<table>
<thead>
<tr>
<th>2011 Fair Value</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large equity fund (a)</td>
<td>$193,552</td>
<td>daily, semi-monthly or monthly</td>
</tr>
<tr>
<td>International equity funds (b)</td>
<td>119,394</td>
<td>monthly</td>
</tr>
<tr>
<td>Real asset funds (c)</td>
<td>59,137</td>
<td>daily</td>
</tr>
<tr>
<td>Fixed income sector funds (d)</td>
<td>737,309</td>
<td>daily, semi-monthly or monthly</td>
</tr>
<tr>
<td>Emerging market funds (e)</td>
<td>15,935</td>
<td>monthly</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,125,327</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2010 Fair Value</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large equity funds (a)</td>
<td>$247,487</td>
<td>daily or monthly</td>
</tr>
<tr>
<td>International equity fund (b)</td>
<td>98,373</td>
<td>semi-monthly</td>
</tr>
<tr>
<td>Real asset funds (c)</td>
<td>50,798</td>
<td>daily</td>
</tr>
<tr>
<td>Fixed income sector funds (d)</td>
<td>722,286</td>
<td>daily</td>
</tr>
<tr>
<td>Emerging market income fund (e)</td>
<td>10,014</td>
<td>monthly</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,128,958</strong></td>
<td></td>
</tr>
</tbody>
</table>

(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-cap index.

(b) This category is invested in four 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 represents approximately 66% of the investment class. Another institutional fund, which allows monthly redemptions and purchases, employs an active investment approach as it seeks to outperform the same index as the aforementioned passive fund. This fund represents approximately 7% of the investment class. The two remaining institutional mutual funds,
which allow for daily purchases and redemptions, are actively managed. One fund seeks to outperform the same index as the two previously mentioned funds while the other fund seeks to outperform a different global, developed market index. The approximate values of these two funds within this asset class are 23% and 4% respectively.

(c) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversification outside of equities and fixed income investments, and finally additional sources of absolute return and income. During periods of strong 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.

(d) This category is handled by one fund manager who employs different sector funds. 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 two emerging market institutional funds. One fund employs an active investment strategy of seeking to replicate the performance of a global market index. This fund, which is approximately 61% of the asset class, allows for monthly purchases and redemptions. The other fund employs a passive investment strategy to replicate the performance of a different global benchmark. This fund allows for semi-monthly redemptions and purchases.

AARP did not have any unfunded commitments related to the above investments as of December 31, 2011 and 2010. AARP does not currently hold any Level 3 financial instruments and did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2011.

Investment income for the years ended December 31, 2011 and 2010 was as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividend income</td>
<td>$46,460</td>
<td>$41,309</td>
</tr>
<tr>
<td>Net (loss) gain</td>
<td>(30,391)</td>
<td>95,407</td>
</tr>
<tr>
<td>Total</td>
<td>$16,069</td>
<td>136,716</td>
</tr>
</tbody>
</table>

Investment income as reported on the consolidated statements of activities was as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>$17,911</td>
<td>126,411</td>
</tr>
<tr>
<td>Investment (loss) gain – sinking fund</td>
<td>(1,842)</td>
<td>10,305</td>
</tr>
<tr>
<td>Total</td>
<td>$16,069</td>
<td>136,716</td>
</tr>
</tbody>
</table>

As of December 31, 2011 and 2010, $638,000,000 and $617,000,000 of consolidated investments, respectively, is held by the AARP Insurance Plan for the payment of member insurance premiums.
Futures Contracts

The cash position on futures contracts settles daily for changes in their fair value. Realized and unrealized gains and losses based on changes in market values of open futures contracts were fully recognized in the accompanying consolidated statements of activities for the years ended December 31, 2011 and 2010. AARP had no direct exposure to futures contracts at December 31, 2011 and 2010, although they were used in several commingled funds.

(5) Accounts Receivable

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>$41,471</td>
<td>38,981</td>
</tr>
<tr>
<td>Program fees</td>
<td>995</td>
<td>249</td>
</tr>
<tr>
<td>Publication advertising</td>
<td>13,488</td>
<td>12,482</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>2,179</td>
<td>1,516</td>
</tr>
<tr>
<td>Grants</td>
<td>3,995</td>
<td>6,959</td>
</tr>
<tr>
<td>Other</td>
<td>9,247</td>
<td>7,462</td>
</tr>
</tbody>
</table>

Accounts receivable, gross 71,375 67,649

Allowance for doubtful accounts (549) (622)

Accounts receivable, net $70,826 67,027

(6) Property and Equipment

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$55,110</td>
<td>55,110</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>256,183</td>
<td>254,860</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>112,408</td>
<td>108,374</td>
</tr>
<tr>
<td>Computer software</td>
<td>139,192</td>
<td>111,025</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>9,070</td>
<td>8,898</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(255,579)</td>
<td>(226,667)</td>
</tr>
</tbody>
</table>

Property and equipment, net $316,384 311,600
(7) **Notes Payable**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate notes, maturing May 2031, net of discount of $875 in 2011 and $895 in 2010 (a)</td>
<td>$124,125</td>
<td>124,105</td>
</tr>
<tr>
<td>Variable rate notes, maturing May 2031 (b)</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>District of Columbia Variable Rate Revenue Bonds, maturing October 2034 (c)</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total notes payable</strong></td>
<td><strong>$199,125</strong></td>
<td><strong>199,105</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2031</td>
<td>175,000</td>
</tr>
<tr>
<td>2034</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200,000</strong></td>
</tr>
</tbody>
</table>

Total interest expense incurred for the years ended December 31, 2011 and 2010 was $9,532,000 and $9,792,000, respectively.

**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 Headquarters Building and bearing 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 $188,324,000 and $167,828,000 as of December 31, 2011 and 2010, respectively.

**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 Headquarters Building. The variable rates were 0.14% and 0.53% at December 31, 2011 and 2010, 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 two condominium units located within the AARP 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, 2011 and 2010, the notes had an interest rate of 0.10% and 0.41%, respectively.

The Foundation has obtained a letter of credit to secure repayment of the bond financing of its office space. 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 each bond outstanding.

(d) **Revolving Credit Facility**

On January 3, 2005, AARP, Inc. obtained an unsecured revolving credit facility with a maximum principal amount of $15,000,000 from a commercial bank. Borrowings under the credit facility bore interest at a floating LIBOR rate plus 92.50 basis points. AARP repaid the outstanding balance on this revolving credit facility and it was not renewed.

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 bear interest at a floating LIBOR rate plus 70 basis points. AARP did not draw any funds from this credit facility in 2011 or 2010. The credit facility expires July 15, 2014.

(e) **Swap Agreements**

AARP Inc. had two interest rate swap agreements (swaps), each covering $25,000,000 of the variable rate notes, which were executed to manage the variability of the interest expense associated with the floating rate debt. Under the swap agreements, AARP paid fixed annual rates of approximately 5.40% and received an amount based on the notional amount of each swap at an interest rate equal to LIBOR. The terms of the swaps provided for net receipt or payment on the first of each month. The swaps were reported at their fair value on the accompanying consolidated statements of financial position as accounts payable and accrued expenses. AARP allowed the swaps to expire in April 2011 and did not renew them.

The net interest accrual, which was the difference between the monthly fixed payment on the swap and the variable receipt from the swap counter-party, was recorded as interest expense together with the interest expense on the fixed rate and other variable rate debt in the accompanying consolidated statements of activities. For the years ended December 31, 2011 and 2010, AARP recognized a gain of $216,000 and $441,000 on the change in fair value of the swaps, respectively. The estimates of fair value for such swaps as provided by an outside valuation firm were considered Level 2 as of December 31, 2010.
(f) Board Designated Sinking Fund

In 2001, the AARP Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes payable. The designated minimum funding is $3,600,000 per year, to be transferred on or about January 1 of each year. The balance in the Sinking Fund as of December 31, 2011 and 2010 was $84,842,000 and $83,083,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The Sinking Fund investments had a net investment loss of $1,842,000 for the year ended December 31, 2011 and a net investment gain of $10,305,000 for the year ended December 31, 2010.

(8) Income Taxes

The significant components of the provision for income taxes were as follows for the years ended December 31, 2011 and 2010 (in thousands):

\[
\begin{array}{lcccc}
 & \text{2011} & \text{2010} \\
\hline
\text{Current:} & & & \\
\text{Federal income tax} & $2,908 & 3,235 \\
\text{State income tax} & 1,000 & 1,074 \\
\hline
\text{Current income tax expense} & 3,908 & 4,309 \\
\hline
\text{Deferred:} & & & \\
\text{Federal income tax} & 1,228 & (502) \\
\text{State income tax} & 672 & (462) \\
\hline
\text{Deferred income tax expense (benefit)} & 1,900 & (964) \\
\hline
\text{Total income tax expense} & $5,808 & 3,345 \\
\hline
\end{array}
\]

The significant components of the net deferred tax asset, which was included in prepaid expenses and other assets at December 31, 2011 and 2010, were as follows (in thousands):

\[
\begin{array}{lcccc}
 & \text{2011} & \text{2010} \\
\hline
\text{Deferred income tax assets:} & & & \\
\text{Employee benefits} & $3,477 & 3,107 \\
\text{Accrued expenses} & 1,191 & 1,205 \\
\text{Deferred revenue} & 6,914 & 9,220 \\
\text{Depreciation} & 110 & 60 \\
\hline
\text{Total deferred income tax assets} & 11,692 & 13,592 \\
\hline
\text{Deferred income tax liability:} & & & \\
\text{Property tax expense} & (16) & (15) \\
\hline
\text{Total deferred income tax liability} & (16) & (15) \\
\hline
\text{Net deferred income tax asset} & $11,676 & 13,577 \\
\hline
\end{array}
\]
Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2011 and 2010 totaled $6,580,000 and $9,683,000, respectively, and consisted 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 below.

(a) WorkSearch Program

The WorkSearch 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 WorkSearch program is primarily funded by the U.S. Department of Labor (DOL) with grants totaling approximately $86 million and $127 million for the years ended December 31, 2011 and 2010, respectively. The current DOL commitment expires in June 2012.

(b) 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 and the Internal Revenue Service (IRS) totaling approximately $6 million and $7 million for the years ended December 31, 2011 and 2010, respectively. The current IRS commitment expires in September 2012.

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

(10) Defined Benefit Pension Plan

Eligible employees of AARP participate in a noncontributory defined benefit pension plan called the AARP Employees’ Pension Plan (the Plan). The 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. Plan assets are invested in equity and fixed income securities managed by outside fund managers.

In 2011 and 2010, employer contributions to the Plan were $30,000,000 in each year. AARP was required to make annual minimum contributions of $13,500,000 and $18,100,000 in 2011 and 2010, respectively. AARP plans to make a discretionary $30,000,000 contribution in 2012.
The components of net periodic pension benefit cost for the years ended December 31, 2011 and 2010 were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$22,564</td>
<td>18,922</td>
</tr>
<tr>
<td>Interest cost</td>
<td>28,503</td>
<td>25,413</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(28,901)</td>
<td>(25,183)</td>
</tr>
<tr>
<td>Amortization of actuarial loss</td>
<td>14,582</td>
<td>8,248</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>193</td>
<td>193</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36,941</strong></td>
<td><strong>27,593</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$(508,272)</td>
<td>$(425,855)</td>
</tr>
<tr>
<td>Service cost</td>
<td>(22,564)</td>
<td>(18,922)</td>
</tr>
<tr>
<td>Interest cost</td>
<td>(28,503)</td>
<td>(25,413)</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>(32,880)</td>
<td>(49,634)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>12,689</td>
<td>11,552</td>
</tr>
<tr>
<td><strong>Benefit obligation at end of year</strong></td>
<td>$(579,530)</td>
<td>$(508,272)</td>
</tr>
<tr>
<td>Change in plan assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value at beginning of year</td>
<td>418,416</td>
<td>347,442</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(4,972)</td>
<td>52,526</td>
</tr>
<tr>
<td>Contribution to the plan</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(12,689)</td>
<td>(11,552)</td>
</tr>
<tr>
<td><strong>Fair value at end of year</strong></td>
<td>430,755</td>
<td>418,416</td>
</tr>
<tr>
<td><strong>Accrued pension liability</strong></td>
<td>$(148,775)</td>
<td>$(89,856)</td>
</tr>
</tbody>
</table>

At December 31, 2011 and 2010, the accumulated benefit obligation was $518,716,000 and $462,170,000, respectively.
The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2011 and 2010 measurement dates were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>5.18%</td>
<td>5.45%</td>
</tr>
<tr>
<td>Future salary increases</td>
<td>4.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2011 and 2010 measurement dates were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>5.45%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>7.50</td>
<td>7.50</td>
</tr>
<tr>
<td>Future salary increases</td>
<td>4.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$14,608</td>
</tr>
<tr>
<td>2013</td>
<td>16,397</td>
</tr>
<tr>
<td>2014</td>
<td>18,333</td>
</tr>
<tr>
<td>2015</td>
<td>20,143</td>
</tr>
<tr>
<td>2016</td>
<td>22,660</td>
</tr>
<tr>
<td>Years 2017 – 2021</td>
<td>151,851</td>
</tr>
</tbody>
</table>

Amounts not yet recognized as a component of net periodic benefit cost for 2011 and 2010 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial loss</td>
<td>$177,981</td>
<td>125,810</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>346</td>
<td>539</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$178,327</strong></td>
<td><strong>$126,349</strong></td>
</tr>
</tbody>
</table>

Estimated amounts to be amortized into net periodic benefit cost in 2012 are $15,059,000 from actuarial loss and $167,000 from prior service cost.

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 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 was as follows at December 31:

<table>
<thead>
<tr>
<th>Asset categories</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>64%</td>
<td>68%</td>
</tr>
<tr>
<td>Debt securities</td>
<td>30</td>
<td>26</td>
</tr>
<tr>
<td>Alternatives</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The targeted allocation of the investment assets in the Plan is for equities to comprise 65% of the investment portfolio, debt securities to comprise 30%, 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 out the minimum and maximum positions for the various asset classes in the Plan:

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>61%</td>
<td>65%</td>
<td>71%</td>
</tr>
<tr>
<td>Debt securities</td>
<td>24</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Alternatives</td>
<td>—</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>—</td>
<td>—</td>
<td>7</td>
</tr>
</tbody>
</table>
As of December 31, 2011 and 2010, the fair value measurement of AARP’s pension plan assets by asset category within the fair value hierarchy was as follows (in thousands):

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>2011</th>
<th>Level 1</th>
<th>Level 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents and receivables</td>
<td>$5,111</td>
<td>5,111</td>
<td>—</td>
</tr>
<tr>
<td>Common stocks</td>
<td>98,271</td>
<td>98,271</td>
<td>—</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>371</td>
<td>371</td>
<td>—</td>
</tr>
<tr>
<td>Institutional mutual funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real asset fund</td>
<td>21,211</td>
<td>—</td>
<td>21,211</td>
</tr>
<tr>
<td>Large cap fund</td>
<td>153,554</td>
<td>—</td>
<td>153,554</td>
</tr>
<tr>
<td>Mid cap fund</td>
<td>7,686</td>
<td>—</td>
<td>7,686</td>
</tr>
<tr>
<td>Emerging market equity fund</td>
<td>14,368</td>
<td>—</td>
<td>14,368</td>
</tr>
<tr>
<td>Fixed income sector funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset-backed securities portfolio</td>
<td>2,671</td>
<td>—</td>
<td>2,671</td>
</tr>
<tr>
<td>Emerging markets portfolio</td>
<td>3,930</td>
<td>—</td>
<td>3,930</td>
</tr>
<tr>
<td>High yield portfolio</td>
<td>2,320</td>
<td>—</td>
<td>2,320</td>
</tr>
<tr>
<td>International portfolio</td>
<td>10,923</td>
<td>—</td>
<td>10,923</td>
</tr>
<tr>
<td>Investment grade corporate portfolio</td>
<td>18,963</td>
<td>—</td>
<td>18,963</td>
</tr>
<tr>
<td>Mortgage portfolio</td>
<td>43,039</td>
<td>—</td>
<td>43,039</td>
</tr>
<tr>
<td>Municipal sector portfolio</td>
<td>1,345</td>
<td>—</td>
<td>1,345</td>
</tr>
<tr>
<td>Developing local market portfolio</td>
<td>895</td>
<td>—</td>
<td>895</td>
</tr>
<tr>
<td>Various short term portfolios</td>
<td>7,303</td>
<td>—</td>
<td>7,303</td>
</tr>
<tr>
<td>Real return portfolio</td>
<td>15,576</td>
<td>—</td>
<td>15,576</td>
</tr>
<tr>
<td>US Government sector portfolio</td>
<td>23,218</td>
<td>—</td>
<td>23,218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$430,755</td>
<td>103,753</td>
<td>327,002</td>
</tr>
</tbody>
</table>
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, 2011 and 2010 is as follows (in thousands):

<table>
<thead>
<tr>
<th>2011 Fair Value</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real asset funds (a) $</td>
<td>21,211</td>
<td>daily</td>
</tr>
<tr>
<td>Large cap fund (c) 153,554</td>
<td>daily</td>
<td>none</td>
</tr>
<tr>
<td>Mid cap fund (d) 7,686</td>
<td>daily</td>
<td>none</td>
</tr>
<tr>
<td>Emerging market equity fund (e) 14,368</td>
<td>daily</td>
<td>none</td>
</tr>
<tr>
<td>Fixed income sector funds (b) 130,183</td>
<td>daily</td>
<td>none</td>
</tr>
<tr>
<td>Total $</td>
<td>327,002</td>
<td></td>
</tr>
</tbody>
</table>
AARP

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

<table>
<thead>
<tr>
<th>2010 Fair value</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real asset funds (a)</td>
<td>$21,146</td>
<td>daily</td>
</tr>
<tr>
<td>Large cap fund (c)</td>
<td>151,305</td>
<td>daily</td>
</tr>
<tr>
<td>Mid cap fund (d)</td>
<td>45,519</td>
<td>daily</td>
</tr>
<tr>
<td>Emerging market equity fund (e)</td>
<td>17,483</td>
<td>daily</td>
</tr>
<tr>
<td>Fixed income sector funds (b)</td>
<td>109,019</td>
<td>daily</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$344,472</strong></td>
<td></td>
</tr>
</tbody>
</table>

(a) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversification outside of equities and fixed income investments, and finally additional sources of absolute return and income. During periods of strong 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.

(b) 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.

(c) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a large-cap market index.

(d) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a mid-cap market index.

(e) This category is invested in a single institutional mutual fund. The fund is actively managed and seeks to provide returns in excess of a well-established international market index.

The Plan did not have any unfunded commitments related to the above investments as of December 31, 2011 and 2010. The Plan did not have any significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2011 and 2010.

(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 components of net periodic postretirement health benefit cost for the years ended December 31, 2011 and 2010 are as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$2,321</td>
<td>$2,388</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,922</td>
<td>4,267</td>
</tr>
<tr>
<td>Amortization of actuarial gain</td>
<td>(968)</td>
<td>(685)</td>
</tr>
<tr>
<td>Amortization of prior service credit</td>
<td>(702)</td>
<td>(702)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,573</strong></td>
<td><strong>5,268</strong></td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$(73,353)</td>
<td>(72,864)</td>
</tr>
<tr>
<td>Service cost</td>
<td>(2,321)</td>
<td>(2,388)</td>
</tr>
<tr>
<td>Interest cost</td>
<td>(3,922)</td>
<td>(4,267)</td>
</tr>
<tr>
<td>Actuarial (loss) gain</td>
<td>(3,006)</td>
<td>4,272</td>
</tr>
<tr>
<td>Participant contributions</td>
<td>(366)</td>
<td>(278)</td>
</tr>
<tr>
<td>Benefits paid, net subsidy</td>
<td>2,452</td>
<td>2,172</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$(80,516)</strong></td>
<td><strong>(73,353)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value at beginning of year</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>2,378</td>
<td>2,168</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>366</td>
<td>278</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(2,744)</td>
<td>(2,446)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Fair value at end of year</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Accrued postretirement health benefits</strong></td>
<td><strong>$(80,516)</strong></td>
<td><strong>(73,353)</strong></td>
</tr>
</tbody>
</table>
As of December 31, 2011 and 2010, the weighted average discount rates used in the actuarial valuation were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of year benefit obligation</td>
<td>5.14%</td>
<td>5.45%</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>5.45%</td>
<td>6.00%</td>
</tr>
</tbody>
</table>

For measurement purposes, the health care cost trend rate was 8% for 2011 and 2010 (the rate is assumed to decrease gradually to 5% in 2017 and remain level thereafter).

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$3,403</td>
</tr>
<tr>
<td>2013</td>
<td>3,808</td>
</tr>
<tr>
<td>2014</td>
<td>4,228</td>
</tr>
<tr>
<td>2015</td>
<td>4,620</td>
</tr>
<tr>
<td>2016</td>
<td>4,954</td>
</tr>
<tr>
<td>Years 2017 – 2021</td>
<td>31,254</td>
</tr>
</tbody>
</table>

Amounts not yet recognized as a component of net periodic benefit cost at 2011 and 2010 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial gain</td>
<td>$ (12,234)</td>
<td>(16,208)</td>
</tr>
<tr>
<td>Prior service credit</td>
<td>$(4,988)</td>
<td>(5,690)</td>
</tr>
<tr>
<td>Total</td>
<td>$(17,222)</td>
<td>(21,898)</td>
</tr>
</tbody>
</table>

Estimated amounts to be amortized into net periodic benefit cost in 2012 are $308,000 from actuarial gain and $702,000 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, 2011 would have resulted in an $14,025,000 increase or a $11,239,000 decrease in the accumulated postretirement benefit obligation, and a $1,251,000 increase or a $987,000 decrease in the 2011 aggregate service and interest cost.

A 1% change in the assumed healthcare cost trend rate at December 31, 2010 would have resulted in an $11,414,000 increase or a $9,293,000 decrease in the accumulated postretirement benefit obligation, and a $1,374,000 increase or a $1,079,000 decrease in the 2010 aggregate service and interest cost.
(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, 2011 and 2010, expenses for the AARP Welfare Plan for current health care benefits were $19,387,000 and $19,662,000, respectively. As of December 31, 2011 and 2010, AARP had a liability related to these benefits of $3,416,000 and $3,554,000, respectively, which was included in accounts payable and accrued expenses on 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.

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, 2011 and 2010, AARP employer contributions to this plan totaled $8,075,000 and $9,068,000, respectively.

(14) **Board Designated Unrestricted Net Assets**

Board designated net assets at December 31, 2011 and 2010 were available to fund the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt retirement sinking fund</td>
<td>$84,842</td>
<td>83,083</td>
</tr>
<tr>
<td>Investment earnings reserve</td>
<td>318,740</td>
<td>291,030</td>
</tr>
<tr>
<td>Foundation quasi-endowment</td>
<td>14,790</td>
<td>15,218</td>
</tr>
<tr>
<td>Foundation board designated operating reserve</td>
<td>23,445</td>
<td>19,016</td>
</tr>
<tr>
<td>LCE quasi-endowments</td>
<td>3,075</td>
<td>2,988</td>
</tr>
<tr>
<td>Other board designations</td>
<td>—</td>
<td>61</td>
</tr>
<tr>
<td><strong>Board designated net assets</strong></td>
<td><strong>$444,892</strong></td>
<td><strong>411,396</strong></td>
</tr>
</tbody>
</table>

(15) **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of amounts restricted for use for specific program purposes and assets available for future periods.

(16) **Commitments and Contingencies**

(a) **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 was $20,142,000 and $19,422,000 in 2011 and 2010, respectively.
Future minimum lease payments, exclusive of additional operating costs, at December 31, 2011 are (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$19,486</td>
</tr>
<tr>
<td>2013</td>
<td>$17,960</td>
</tr>
<tr>
<td>2014</td>
<td>$12,562</td>
</tr>
<tr>
<td>2015</td>
<td>$10,409</td>
</tr>
<tr>
<td>2016</td>
<td>$7,314</td>
</tr>
<tr>
<td>2017–2022</td>
<td>32,047</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$99,778</strong></td>
</tr>
</tbody>
</table>

(b) Contingencies

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. The amount of loss from these lawsuits could not be estimated as of December 31, 2011.

(17) Subsequent Events

In preparing these financial statements, AARP has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued, March 23, 2012.