

Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AARP

December 31, 2013 and 2012

AARP

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Audit • Tax • Advisory

Grant Thornton LLP
1250 Connecticut Ave. NW, Suite 400
Washington, DC 20036-3531

T 202.296.7800
F 202.833.9165
www.GrantThornton.com

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, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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, 2013 and 2012, 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 26, 2014

AARP
Consolidated Statements of Financial Position
As of December 31, 2013 and 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 453,089	\$ 493,693
Accounts receivable, net (Notes 2 and 5)	80,698	79,106
Prepaid expenses and other assets (Note 8)	50,009	36,293
Investments (Notes 2 and 4)	2,495,721	2,104,636
Property and equipment, net (Notes 2 and 6)	<u>313,677</u>	<u>313,243</u>
Total assets	<u>\$ 3,393,194</u>	<u>\$ 3,026,971</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 207,697	\$ 188,507
Insurance premiums payable (Note 3)	955,662	892,121
Deferred revenue and other liabilities (Note 2)	21,174	24,399
Deferred membership dues (Note 2)	522,144	495,914
Accrued pension liability (Note 10)	125,876	266,606
Accrued postretirement health benefits (Note 11)	75,886	83,447
Notes payable (Note 7)	<u>199,170</u>	<u>199,146</u>
Total liabilities	<u>2,107,609</u>	<u>2,150,140</u>
NET ASSETS		
Unrestricted:		
Undesignated (Note 2)	450,502	275,014
Board designated (Notes 2, 7 and 14)	<u>831,877</u>	<u>598,740</u>
Total unrestricted net assets	1,282,379	873,754
Temporarily restricted (Notes 2 and 15)	<u>3,206</u>	<u>3,077</u>
Total net assets	<u>1,285,585</u>	<u>876,831</u>
Total liabilities and net assets	<u>\$ 3,393,194</u>	<u>\$ 3,026,971</u>

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

AARP
Consolidated Statement of Activities
For the year ended December 31, 2013
(in thousands)

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES			
Membership dues (Note 2)	\$ 290,628	\$ -	\$ 290,628
Royalties (Notes 2 and 3)	763,210	-	763,210
Publications advertising (Note 2)	140,394	-	140,394
Grant revenue (Notes 2 and 9)	90,422	-	90,422
Program income (Note 2)	53,791	-	53,791
Contributions (Note 2)	91,695	4,439	96,134
Other	4,412	-	4,412
Net assets released from restrictions	4,310	(4,310)	-
Total operating revenues	<u>1,438,862</u>	<u>129</u>	<u>1,438,991</u>
OPERATING EXPENSES			
Program services:			
Programs and field services	341,845	-	341,845
Publications	182,357	-	182,357
Member services	358,785	-	358,785
Legislation and education	109,481	-	109,481
Total program services	<u>992,468</u>	<u>-</u>	<u>992,468</u>
Supporting services:			
Membership development	163,280	-	163,280
Management and general	247,071	-	247,071
Total supporting services	<u>410,351</u>	<u>-</u>	<u>410,351</u>
Total operating expenses	<u>1,402,819</u>	<u>-</u>	<u>1,402,819</u>
Change in net assets from operations	36,043	129	36,172
NON-OPERATING ACTIVITY			
Investment income (Notes 2, 3 and 4)	171,207	-	171,207
Investment income from sinking fund (Notes 2, 4 and 7)	19,531	-	19,531
Income taxes (Notes 2 and 8)	(520)	-	(520)
Postretirement activity other than net periodic benefit cost (Notes 10 and 11)	182,364	-	182,364
Change in net assets	408,625	129	408,754
Net assets, beginning of year	<u>873,754</u>	<u>3,077</u>	<u>876,831</u>
Net assets, end of year	<u>\$ 1,282,379</u>	<u>\$ 3,206</u>	<u>\$ 1,285,585</u>

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

AARP
Consolidated Statement of Activities
For the year ended December 31, 2012
(in thousands)

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES			
Membership dues (Note 2)	\$ 281,102	\$ -	\$ 281,102
Royalties (Notes 2 and 3)	723,840	-	723,840
Publications advertising (Note 2)	131,330	-	131,330
Grant revenue (Notes 2 and 9)	94,444	-	94,444
Program income (Note 2)	50,863	-	50,863
Contributions (Note 2)	97,739	2,008	99,747
Other	5,620	-	5,620
Net assets released from restrictions	3,889	(3,889)	-
Total operating revenues	<u>1,388,827</u>	<u>(1,881)</u>	<u>1,386,946</u>
OPERATING EXPENSES			
Program services:			
Programs and field services	344,114	-	344,114
Publications	184,392	-	184,392
Member services	321,851	-	321,851
Legislation and education	174,142	-	174,142
Total program services	<u>1,024,499</u>	<u>-</u>	<u>1,024,499</u>
Supporting services:			
Membership development	158,158	-	158,158
Management and general	165,154	-	165,154
Total supporting services	<u>323,312</u>	<u>-</u>	<u>323,312</u>
Total operating expenses	<u>1,347,811</u>	<u>-</u>	<u>1,347,811</u>
Change in net assets from operations	41,016	(1,881)	39,135
NON-OPERATING ACTIVITY			
Investment income (Notes 2, 3 and 4)	151,521	-	151,521
Investment income from sinking fund (Notes 2, 4 and 7)	12,076	-	12,076
Income taxes (Notes 2 and 8)	(4,081)	-	(4,081)
Postretirement activity other than net periodic benefit cost (Notes 10 and 11)	(101,162)	-	(101,162)
Inherent contribution - acquisition of Experience Corps (Note 2)	689	-	689
Change in net assets	100,059	(1,881)	98,178
Net assets, beginning of year	<u>773,695</u>	<u>4,958</u>	<u>778,653</u>
Net assets, end of year	<u>\$ 873,754</u>	<u>\$ 3,077</u>	<u>\$ 876,831</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, 2013 and 2012
(in thousands)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 408,754	\$ 98,178
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,851	38,694
Change in allowance for uncollectible accounts	(360)	218
Charges other than net periodic benefit cost	(182,364)	101,162
Net realized and unrealized gains on investments	(149,020)	(127,204)
Deferred income taxes	(5,983)	(930)
Changes in operating assets and liabilities:		
Accounts receivable	(1,232)	(8,498)
Prepaid expenses and other assets	(7,778)	4,385
Accounts payable and accrued expenses	19,190	28,912
Insurance premiums payable	63,541	49,803
Deferred revenue and other liabilities	(3,225)	(2,697)
Deferred membership dues	26,230	20,829
Accrued pension liability	32,113	15,731
Accrued postretirement health benefits	1,960	3,869
Net cash provided by operating activities	<u>242,677</u>	<u>222,452</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(41,216)	(35,479)
Proceeds from sale and maturities of investments	994,547	977,121
Purchases of investments	<u>(1,236,612)</u>	<u>(1,196,173)</u>
Net cash used in investing activities	<u>(283,281)</u>	<u>(254,531)</u>
Net decrease in cash and cash equivalents	(40,604)	(32,079)
Cash and cash equivalents, beginning of year	<u>493,693</u>	<u>525,772</u>
Cash and cash equivalents, end of year	<u>\$ 453,089</u>	<u>\$ 493,693</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 9,501</u>	<u>\$ 9,547</u>
Cash paid for income taxes	<u>\$ 3,087</u>	<u>\$ 1,074</u>

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

AARP
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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, and a media sales office in New York City.

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, 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 (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 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, 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

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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 Foundation and the Institute 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.

AARP Experience Corps

AARP Experience Corps (EC) 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. AARP, Inc. has the authority to appoint EC's Board of Directors.

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 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.

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. The consolidated financial statements do not include the operations and accounts of more than 1,300 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.

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Notes to Consolidated Financial Statements
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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.

Use of Estimates

The preparation of 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.

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, 2013 and 2012, \$311,000,000 and \$298,000,000, 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.

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 measured and reported at fair value. Changes in fair value are reported as investment income/loss in the consolidated statement of activities.

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Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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 statement 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 are carried at net asset values as provided by the investment managers as of the reporting date. 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 2013 and 2012, the estimated fair values represented approximately 51% and 57%, 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 financial statements.

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

The service provider United Healthcare Corporation accounted for 66% and 65% of total royalties earned in 2013 and 2012, respectively.

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Notes to Consolidated Financial Statements
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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.

Grant Revenues

The Foundation, LCE and EC 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, LCE and EC.

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.

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, LCE and Experience Corps, while advocacy contributions are only received by AARP, Inc. Contributions also include in-kind contributed professional services with a fair value totaling \$25,206,000 and \$42,261,000 for the years ended December 31, 2013 and 2012, respectively.

Fundraising expenses, which are reported as part of management and general expenses, totaled \$27,546,000 and \$22,725,000 for the years ended December 31, 2013 and 2012, 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.

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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 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 which are unusual or nonrecurring in nature.

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, 2013 and 2012, advertising expense totaled \$219,454,000 and \$204,103,000, 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 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.

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, 2013 and 2012, 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. The fair values of investments, notes payable and fixed rate debt are discussed in Notes 4 and 7, respectively.

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Notes to Consolidated Financial Statements
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Subsequent Events

AARP evaluated its December 31, 2013 consolidated financial statements for subsequent events through March 26, 2014, the date the consolidated financial statements were issued. AARP is not aware of any material subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

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 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 53% and 52% of total royalties from the Plan for the years ended December 31, 2013 and 2012, 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 on the accompanying consolidated statements of activities. For the years ended December 31, 2013 and 2012, the Plan processed \$8.4 and \$7.8 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, 2013 and 2012, the Plan experienced net investment income of \$42,677,000 and \$59,191,000, respectively, which is included in investment income in the accompanying consolidated statements of activities.

At December 31, 2013 and 2012, insurance premiums payable (in thousands) are comprised of the following:

	<u>2013</u>	<u>2012</u>
Premiums payable to the insurance underwriters	\$ 690,816	\$ 649,464
Payments received in advance	243,318	218,915
Unprocessed and partial payments	<u>21,528</u>	<u>23,742</u>
Total insurance premiums payable	<u>\$ 955,662</u>	<u>\$ 892,121</u>

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Notes to Consolidated Financial Statements
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4. INVESTMENTS

Investments as of December 31, 2013 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
U.S. Treasury securities	\$ 103,865	\$ 103,865	\$ -
Municipal government fixed income securities	3,103	-	3,103
Foreign government fixed income securities	14,454	-	14,454
Mortgage-backed fixed income securities	130,556	-	130,556
U.S. corporate fixed income securities	347,058	2,626	344,432
Global fixed income	50,352	50,352	-
International corporate fixed income securities	172,748	-	172,748
Commodity fund	145	145	-
Global equity securities	68,412	68,412	-
International equity securities	133,881	133,881	-
Emerging market equity securities	31,670	31,670	-
Large-mid cap equity securities	86,186	86,186	-
Small cap equity securities	78,248	78,248	-
Institutional mutual funds:			
Large-mid cap equity funds	326,310	-	326,310
International equity funds	207,815	-	207,815
Real asset funds	67,123	-	67,123
Global fixed income funds	71,246	-	71,246
Emerging market income fund	10,241	-	10,241
Emerging equity fund	15,639	-	15,639
Fixed income sector funds:			
Short-term fund	12,270	-	12,270
Private ST floating II NAV fund	60,600	-	60,600
U.S. government portfolio	88,951	-	88,951
Mortgage portfolio	157,052	-	157,052
Municipal portfolio	5,875	-	5,875
Real return bond fund	74,510	-	74,510
Private emerging markets bond fund	17,988	-	17,988
International portfolio	47,470	-	47,470
High yield portfolio	11,954	-	11,954
Investment grade corporate portfolio	86,277	-	86,277
Asset-backed fund	13,722	-	13,722
	<u>\$ 2,495,721</u>	<u>\$ 555,385</u>	<u>\$ 1,940,336</u>

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Investments as of December 31, 2012 are summarized in the following table by their classification in the fair value hierarchy (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
U.S. Treasury securities	\$ 96,217	\$ 96,217	\$ -
Municipal government fixed income securities	1,097	-	1,097
Foreign government fixed income securities	15,944	-	15,944
Mortgage-backed fixed income securities	121,259	-	121,259
U.S. corporate fixed income securities	281,586	10,930	270,656
International corporate fixed income securities	126,489	-	126,489
International equity securities	97,050	97,050	-
Emerging market equity securities	27,293	27,293	-
Large-mid cap equity securities	65,539	65,539	-
Small cap equity securities	53,276	53,276	-
Institutional mutual funds:			
Large-mid cap equity funds	249,446	-	249,446
International equity funds	172,883	-	172,883
Real asset funds	64,006	-	64,006
Emerging market income fund	10,453	-	10,453
Emerging equity fund	15,671	-	15,671
Fixed income sector funds:			
Short-term fund	14,317	-	14,317
Private ST floating II NAV fund	38,091	-	38,091
U.S. government portfolio	105,562	-	105,562
Mortgage portfolio	221,307	-	221,307
Municipal portfolio	7,563	-	7,563
Real return bond fund	99,980	-	99,980
Private emerging markets bond fund	22,719	-	22,719
International portfolio	57,452	-	57,452
High yield portfolio	13,808	-	13,808
Investment grade corporate portfolio	110,068	-	110,068
Asset-backed fund	15,560	-	15,560
	<u>\$ 2,104,636</u>	<u>\$ 350,305</u>	<u>\$ 1,754,331</u>

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, based on unadjusted market prices as of the measurement date.

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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 respective 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, 2013 and 2012 is as follows (in thousands):

	2013		Redemption
	Fair Value	Redemption Frequency	Notice Period
Large-mid cap equity funds (a)	\$ 326,310	daily	2 days
International equity funds (b)	207,815	semi-monthly or monthly	none or 2 days
Real asset funds (c)	67,123	daily	none
Global fixed income funds (d)	71,246	semi-monthly or monthly	none or 2 days
Fixed income sector funds (e)	576,669	daily	none
Emerging market equity and income funds (f)	25,880	semi-monthly or monthly	2 days or 60 days
Total	<u>\$ 1,275,043</u>		
	2012		Redemption
	Fair Value	Redemption Frequency	Notice Period
Large-mid cap equity funds (a)	\$ 249,446	daily	2 days
International equity funds (b)	172,883	semi-monthly or monthly	none or 2 days
Real asset funds (c)	64,006	daily	none
Fixed income sector funds (e)	706,426	daily	none
Emerging market equity and income funds (f)	26,124	semi-monthly or monthly	2 days or 60 days
Total	<u>\$ 1,218,885</u>		

- (a) This category is invested in two institutional mutual funds. Both funds employ a passive investment strategy seeking to replicate the performance of two different benchmarks. One index has a large-cap benchmark, while the other index has a mid-cap benchmark.

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- (b) 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 represents approximately 94% 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.
- (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 invested in two fixed income funds. Both funds are actively managed and seek a strategy to exceed the performance of a global, short-term index. Both fund managers are given wide latitude under mutually agreed upon investment guidelines to invest in an array of investment vehicles with short-term maturities. Each fund has approximately 50% of the category's total asset value.
- (e) 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.
- (f) 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 40% 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.

AARP did not have any unfunded commitments related to the above investments as of December 31, 2013 and 2012. AARP does not currently hold any Level 3 financial instruments and did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the years ended December 31, 2013 and 2012.

Investment income for the years ended December 31, 2013 and 2012 was as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 41,718	\$ 36,393
Net realized and unrealized gains	<u>149,020</u>	<u>127,204</u>
Total	<u>\$ 190,738</u>	<u>\$ 163,597</u>

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

	<u>2013</u>	<u>2012</u>
Investment income	\$ 171,207	\$ 151,521
Investment gain - sinking fund	<u>19,531</u>	<u>12,076</u>
Total	<u>\$ 190,738</u>	<u>\$ 163,597</u>

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As of December 31, 2013 and 2012, \$664,000,000 and \$611,000,000 of consolidated investments, respectively, are 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 fair values of open futures contracts were have been recognized in the accompanying consolidated statements of activities for the years ended December 31, 2013 and 2012.

AARP had no direct exposure to futures contracts at December 31, 2013 and 2012, although they were used in several commingled funds.

5. ACCOUNTS RECEIVABLE, NET

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

	<u>2013</u>	<u>2012</u>
Royalties	\$ 47,199	\$ 46,339
Program fees	2,593	4,540
Publication advertising	11,926	11,569
Interest and dividends	2,800	2,998
Grants	9,848	4,440
Other	<u>6,739</u>	<u>9,987</u>
Accounts receivable, gross	81,105	79,873
Less: Allowance for doubtful accounts	<u>(407)</u>	<u>(767)</u>
Accounts receivable, net	<u>\$ 80,698</u>	<u>\$ 79,106</u>

6. PROPERTY AND EQUIPMENT, NET

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

	<u>2013</u>	<u>2012</u>
Land	\$ 53,023	\$ 53,023
Buildings and improvements	252,243	246,773
Furniture and equipment	89,310	113,182
Computer software	200,564	169,783
Leasehold improvements	<u>9,026</u>	<u>9,650</u>
	604,166	592,411
Less: accumulated depreciation and amortization	<u>(290,489)</u>	<u>(279,168)</u>
Property and equipment, net	<u>\$ 313,677</u>	<u>\$ 313,243</u>

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7. NOTES PAYABLE

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

	<u>2013</u>	<u>2012</u>
Fixed rate notes, maturing May 2031, net of discount of \$830 in 2013 and \$854 in 2012 (a)	\$ 124,170	\$ 124,146
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>\$ 199,170</u>	<u>\$ 199,146</u>

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

2031	\$ 174,170
2034	<u>25,000</u>
	<u>\$ 199,170</u>

Total interest expense for the years ended December 31, 2013 and 2012 totaled \$9,517,000 and \$9,573,000, 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 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 \$165,671,000 and \$187,359,000 as of December 31, 2013 and 2012, 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 Headquarters Building. The variable rates were 0.12% and 0.25% at December 31, 2013 and 2012, 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, 2013 and 2012, the notes had an interest rate of 0.05% and 0.13%, respectively.

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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. The Foundation's letter of credit expires October 1, 2014.

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 70 basis points. AARP did not draw any funds from this credit facility in 2013 or 2012. The credit facility expires on July 15, 2014.

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 (Note 14). 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, 2013 and 2012 totaled \$123,649,000 and \$100,518,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The Sinking Fund investments had net investment gains of \$19,531,000 and \$12,076,000 for the years ended December 31, 2013 and 2012, respectively.

8. INCOME TAXES

The significant components of the provision for income taxes are as follows for the years ended December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Current:		
Federal income tax	\$ 4,635	\$ 2,591
State income tax	1,868	560
Current income tax expense	<u>6,503</u>	<u>3,151</u>
Deferred:		
Federal income tax	(4,129)	682
State income tax	<u>(1,854)</u>	<u>248</u>
Deferred income tax (benefit) expense	<u>(5,983)</u>	<u>930</u>
Total income tax expense	<u>\$ 520</u>	<u>\$ 4,081</u>

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The significant components of the net deferred tax asset, which is included in prepaid expenses and other assets at December 31, 2013 and 2012, are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Deferred income tax assets:		
Employee benefits	\$ 3,457	\$ 3,633
Accrued expenses	48	49
Deferred revenue	13,011	6,919
Depreciation	<u>231</u>	<u>162</u>
Total deferred income tax assets	<u>16,747</u>	<u>10,763</u>
Deferred income tax liability:		
Property tax expense	<u>(18)</u>	<u>(17)</u>
Total deferred income tax liability	<u>(18)</u>	<u>(17)</u>
Net deferred income tax asset	<u>\$ 16,729</u>	<u>\$ 10,746</u>

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2013 and 2012 totaled \$3,087,000 and \$1,074,000, respectively, and consist entirely of estimated federal and state income tax payments.

9. GRANT REVENUE

The Foundation, LCE and EC administer grants received from federal agencies and private organizations. The two largest grant programs are described below.

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 \$68,000,000 and \$72,000,000 for the years ended December 31, 2013 and 2012, respectively. The current DOL commitment expires in June 2014. 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 and the Internal Revenue Service (“IRS”) totaling \$6,000,000 for each of the years ended December 31, 2013 and 2012, respectively. The current IRS commitment expires in September 2014. 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.

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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 principally in equity and fixed income securities managed by outside fund managers.

In 2013 and 2012, employer contributions to the Plan totaled \$30,000,000 each year. AARP was not required to make annual minimum contributions in 2013 or 2012, respectively. AARP plans to make a discretionary \$30,000,000 contribution in 2014.

The components of net periodic pension benefit cost for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Service cost	\$ 33,996	\$ 26,408
Interest cost	33,759	32,516
Expected return on plan assets	(34,511)	(31,588)
Amortization of actuarial loss	28,804	18,227
Amortization of prior service cost	66	167
	<u>\$ 62,114</u>	<u>\$ 45,730</u>

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):

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (773,951)	\$ (579,530)
Service cost	(33,996)	(26,408)
Interest cost	(33,759)	(32,516)
Actuarial gain/(loss)	85,856	(150,114)
Benefits paid	16,354	14,617
Benefit obligation at end of year	<u>(739,496)</u>	<u>(773,951)</u>
Change in plan assets:		
Fair value at beginning of year	507,345	430,755
Actual return on plan assets	92,629	61,207
Contribution to the plan	30,000	30,000
Benefits paid	(16,354)	(14,617)
Fair value at end of year	<u>613,620</u>	<u>507,345</u>
Accrued pension liability	<u>\$ (125,876)</u>	<u>\$ (266,606)</u>

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At December 31, 2013 and 2012, the accumulated benefit obligation totaled \$646,849,307 and \$666,334,000, respectively.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2013 and 2012 measurement dates are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	5.19 %	4.21 %
Future salary increases	4.00 %	4.00 %

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2013 and 2012 measurement dates are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	4.21 %	5.18 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Future salary increases	4.00 %	4.00 %

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

2014	\$ 19,175
2015	21,360
2016	23,755
2017	26,288
2018	28,898
Years 2019 - 2023	191,713

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Net actuarial loss	\$ 107,470	\$ 280,248
Prior service cost	112	178
	<u>\$ 107,582</u>	<u>\$ 280,426</u>

Estimated amounts to be amortized into net periodic benefit cost in 2014 are \$14,638,000 from actuarial loss and \$66,000 from prior service cost.

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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 is as follows at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Asset categories:		
Equity securities	64 %	66 %
Debt securities	31 %	29 %
Alternatives	4 %	4 %
Cash equivalents	<u>1 %</u>	<u>1 %</u>
	<u>100 %</u>	<u>100 %</u>

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:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Asset class:			
Equity securities	61 %	65 %	71 %
Debt securities	24 %	30 %	32 %
Alternatives	-	5 %	7 %
Cash equivalents	-	-	7 %

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As of December 31, 2013 and 2012, the fair value of AARP's pension plan assets by asset category within the fair value hierarchy is as follows (in thousands):

	<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 6,780	\$ 6,780	\$ -
Common stocks	245,988	245,988	-
Preferred stock	608	608	-
Corporate fixed income securities	1,290	1,290	-
Various fixed income funds	94,862	94,862	-
Institutional mutual funds:			
Real asset funds	27,159	-	27,159
Large cap fund	96,614	-	96,614
Mid cap fund	6,738	-	6,738
Emerging market equity fund	21,703	-	21,703
International equity fund	13,557	-	13,557
Global fixed income fund	35,985	-	35,985
Fixed income sector funds:			
Asset-backed securities portfolio	1,506	-	1,506
Emerging markets portfolio	1,981	-	1,981
High yield portfolio	1,328	-	1,328
International portfolio	5,255	-	5,255
Investment grade corporate portfolio	9,495	-	9,495
Mortgage portfolio	17,261	-	17,261
Municipal sector portfolio	632	-	632
Various short-term portfolios	6,917	-	6,917
Real return portfolio	8,185	-	8,185
U.S. Government sector portfolio	9,776	-	9,776
	<u>\$ 613,620</u>	<u>\$ 349,528</u>	<u>\$ 264,092</u>

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	<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents	\$ 3,948	\$ 3,948	\$ -
Common stocks	116,212	116,212	-
Preferred stock	857	857	-
Institutional mutual funds:			
Real asset funds	24,713	-	24,713
Large cap fund	175,594	-	175,594
Mid cap fund	8,943	-	8,943
Emerging market equity fund	21,549	-	21,549
International equity fund	11,011	-	11,011
Fixed income sector funds:			
Asset-backed securities portfolio	3,188	-	3,188
Emerging markets portfolio	4,648	-	4,648
High yield portfolio	2,845	-	2,845
International portfolio	11,781	-	11,781
Investment grade corporate portfolio	22,601	-	22,601
Mortgage portfolio	45,582	-	45,582
Municipal sector portfolio	1,545	-	1,545
Various short-term portfolios	10,004	-	10,004
Real return portfolio	20,502	-	20,502
U.S. Government sector portfolio	21,822	-	21,822
	<u>\$ 507,345</u>	<u>\$ 121,017</u>	<u>\$ 386,328</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, 2013 and 2012 is as follows (in thousands):

	<u>2013</u> <u>Fair Value</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Real asset funds (a)	\$ 27,159	daily	none
Fixed income sector funds (b)	62,336	daily	none
Large cap fund (c)	96,614	daily	none
Mid cap fund (d)	6,738	daily	none
Emerging market equity funds (e)	21,703	daily or semi-monthly	none or 2 days
International equity fund (f)	13,557	semi-monthly	2 days
Global fixed income fund (g)	35,985	monthly	15 days
Total	<u>\$ 264,092</u>		

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	2012	Redemption	Redemption
	Fair Value	Frequency	Notice Period
Real asset funds (a)	\$ 24,713	daily	none
Fixed income sector funds (b)	144,518	daily	none
Large cap fund (c)	175,594	daily	none
Mid cap fund (d)	8,943	daily	none
Emerging market equity funds (e)	21,549	daily or semi-monthly	none or 2 days
International equity fund (f)	11,011	semi-monthly	2 days
Total	<u>\$ 386,328</u>		

- (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 two institutional mutual funds. One fund is actively managed and seeks to provide returns in excess of a well-established international market index. This fund allows daily redemptions and accounts for 80% of the investment class. The other fund is passively managed. Its benchmark is the same as the active fund. Redemptions are allowed semi-monthly.
- (f) This category is invested in one passive fund. The fund allows semi-monthly redemptions and purchases. The fund seeks to replicate the performance of a global, developed market index.
- (g) 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.

The Plan did not have any unfunded commitments related to the above investments as of December 31, 2013 and 2012. The Plan did not have any significant transfers of assets between Levels 1 and 2 of the fair value hierarchy during 2013 and 2012.

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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, 2013 and 2012 are as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Service cost	\$ 2,518	\$ 2,834
Interest cost	3,350	4,176
Amortization of actuarial gain	(891)	(370)
Amortization of prior service credit	<u>(702)</u>	<u>(702)</u>
	<u>\$ 4,275</u>	<u>\$ 5,938</u>

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>2013</u>	<u>2012</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ (83,447)	\$ (80,516)
Service cost	(2,518)	(2,834)
Interest cost	(3,350)	(4,176)
Actuarial gain	11,113	2,011
Participant contributions	(388)	(423)
Benefits paid, net subsidy	<u>2,704</u>	<u>2,491</u>
Benefit obligation at end of year	<u>(75,886)</u>	<u>(83,447)</u>
Change in plan assets:		
Fair value at beginning of year	-	-
Employer contribution	2,316	2,312
Plan participants' contributions	388	424
Benefits paid	<u>(2,704)</u>	<u>(2,736)</u>
Fair value at end of year	<u>-</u>	<u>-</u>
Accrued postretirement health benefits	<u>\$ (75,886)</u>	<u>\$ (83,447)</u>

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As of December 31, 2013 and 2012, the weighted average discount rates used in the actuarial valuation were as follows:

	<u>2013</u>	<u>2012</u>
End of year benefit obligation	5.16 %	4.24 %
Net periodic benefit cost	4.24 %	5.14 %

For measurement purposes, the health care cost trend rate was 7% for 2013 and 2012 (the rate is assumed to decrease gradually to 5% in 2021 and remain level thereafter).

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

2014	\$	3,548
2015		3,889
2016		4,240
2017		4,719
2018		4,622
Years 2019 - 2023		28,123

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Net actuarial gain	\$ (24,098)	\$ (13,875)
Prior service credit	(3,582)	(4,285)
	<u>\$ (27,680)</u>	<u>\$ (18,160)</u>

Estimated amounts to be amortized into net periodic benefit cost in 2014 are \$1,248,000 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, 2013 would have resulted in a \$4,799,000 increase or a \$6,850,000 decrease in the accumulated postretirement benefit obligation, and a \$364,000 increase or a \$606,000 decrease in the 2013 aggregate service and interest cost.

A 1% change in the assumed healthcare cost trend rate at December 31, 2012 would have resulted in a \$13,871,000 increase or a \$11,230,000 decrease in the accumulated postretirement benefit obligation, and a \$1,539,000 increase or a \$1,194,000 decrease in the 2012 aggregate service and interest cost.

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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, 2013 and 2012, expenses for the AARP Welfare Plan for current health care benefits were \$20,351,000 and \$19,853,000, respectively. As of December 31, 2013 and 2012, AARP had a liability related to these benefits of \$2,756,000 and \$3,373,000, 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. 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, 2013 and 2012, AARP employer contributions to this plan totaled \$9,209,000 and \$9,322,000, respectively.

14. BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated unrestricted net assets at December 31, 2013 and 2012 are available to fund the following (in thousands):

	<u>2013</u>	<u>2012</u>
Debt retirement sinking fund	\$ 123,649	\$ 100,518
Investment earnings reserve	610,463	456,237
Innovation fund	50,000	-
Foundation quasi-endowment	18,101	16,154
Foundation board designated operating reserve	25,736	22,419
LCE quasi-endowments	<u>3,928</u>	<u>3,412</u>
Board designated net assets	<u>\$ 831,877</u>	<u>\$ 598,740</u>

15. TEMPORARILY RESTRICTED NET ASSETS

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

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16. 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 was \$20,881,000 and \$21,775,000 in 2013 and 2012, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2013 are (in thousands):

2014	\$	17,225
2015		14,337
2016		10,707
2017		9,139
2018		7,808
Years 2019 - 2023		<u>19,899</u>
Total	\$	<u>79,115</u>

Contingencies

The Foundation, LCE and EC 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, changes in net assets or cash flow of the Foundation, LCE or EC.

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, if any, from these lawsuits could not be estimated as of December 31, 2013.