Consolidated Financial Statements and Report of Independent Certified Public Accountants

AARP

December 31, 2020 and 2019

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
AARP:

We have audited the accompanying consolidated financial statements of AARP and Affiliates (collectively, "AARP"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

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

Grant Thornton

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AARP and Affiliates as of December 31, 2020 and 2019, 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

Melville, New York
March 16, 2021

AARP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
Cash and cash equivalents (Note 2)	$ 425,117	$ 415,259
Accounts receivable, net (Notes 2 and 8)	109,305	113,836
Prepaid expenses and other assets (Notes 2 and 12)	44,544	48,742
Investments (Notes 2 and 7)	4,020,912	3,696,375
Property and equipment, net (Notes 2, 9 and 10)	408,126	421,479
Total assets	$ 5,008,004	$ 4,695,691
LIABILITIES		
Accounts payable and accrued expenses	$ 196,246	$ 198,742
Insurance premiums payable (Notes 6 and 7)	1,183,923	1,237,568
Deferred revenue and other liabilities (Notes 2, 3 and 10)	92,738	76,035
Deferred membership dues (Note 3)	516,740	535,536
Accrued pension liability (Note 13)	368,357	231,001
Accrued postretirement health benefits (Note 14)	168,220	151,836
Notes payable (Note 11)	199,392	199,353
Total liabilities	2,725,616	2,630,071
Commitments and contingencies (Note 18)		
NET ASSETS		
Without donor restrictions:		
Undesignated (Note 2)	1,517,197	1,400,300
Board designated (Notes 2 and 17)	753,974	660,058
Total net assets without donor restrictions	2,271,171	2,060,358
With donor restrictions (Note 2)	11,217	5,262
Total net assets	2,282,388	2,065,620
Total liabilities and net assets	$ 5,008,004	$ 4,695,691

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

AARP

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2020
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Membership dues (Note 3)	$ 300,660	$ -	$ 300,660
Royalties (Notes 3 and 6)	1,001,645	-	1,001,645
Publications advertising (Note 3)	136,705	-	136,705
Grant revenue (Note 3)	95,671	-	95,671
Program income (Note 3)	55,910	-	55,910
Contributions (Note 3)	79,524	10,500	90,024
Other (Note 9)	50,659	-	50,659
Net assets released from restrictions	4,545	(4,545)	-
Total operating revenues	1,725,319	5,955	1,731,274
Operating expenses (Note 5)			
Program services:			
Community engagement and outreach	493,445	-	493,445
Publications and communications	353,050	-	353,050
Membership engagement	241,656	-	241,656
Training and education programs	105,934	-	105,934
Total program services	1,194,085	-	1,194,085
Supporting services:			
Membership development	235,823	-	235,823
Management and general	260,749	-	260,749
Total supporting services	496,572	-	496,572
Total operating expenses	1,690,657	-	1,690,657
Change in net assets from operating activities	34,662	5,955	40,617
Non-operating activity			
Investment gain (Notes 2 and 6)	288,323	-	288,323
Income taxes (Notes 2 and 12)	(9,800)	-	(9,800)
Other components of net periodic benefit cost (Notes 13 and 14)	(10,309)	-	(10,309)
Pension and postretirement activity other than net periodic benefit cost (Notes 13 and 14)	(92,063)	-	(92,063)
Change in net assets	210,813	5,955	216,768
Net assets, beginning of year	2,060,358	5,262	2,065,620
Net assets, end of year	$ 2,271,171	$ 11,217	$ 2,282,388

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

AARP

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2019
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Membership dues (Note 3)	$ 300,446	$ -	$ 300,446
Royalties (Notes 3 and 6)	977,006	-	977,006
Publications advertising (Note 3)	144,868	-	144,868
Grant revenue (Note 3)	109,195	-	109,195
Program income (Note 3)	55,383	-	55,383
Contributions (Note 3)	101,045	5,098	106,143
Other	4,542	-	4,542
Net assets released from restrictions	3,653	(3,653)	-
Total operating revenues	1,696,138	1,445	1,697,583
Operating expenses (Note 5)			
Program services:			
Community engagement and outreach	510,104	-	510,104
Publications and communications	363,423	-	363,423
Membership engagement	237,522	-	237,522
Training and education programs	120,439	-	120,439
Total program services	1,231,488	-	1,231,488
Supporting services:			
Membership development	206,249	-	206,249
Management and general	258,541	-	258,541
Total supporting services	464,790	-	464,790
Total operating expenses	1,696,278	-	1,696,278
Change in net assets from operating activities	(140)	1,445	1,305
Non-operating activity			
Investment gain (Notes 2 and 6)	476,141	-	476,141
Income taxes (Notes 2 and 12)	(5,966)	-	(5,966)
Other components of net periodic benefit cost (Notes 13 and 14)	(11,354)	-	(11,354)
Pension and postretirement activity other than net periodic benefit cost (Notes 13 and 14)	(4,714)	-	(4,714)
Change in net assets	453,967	1,445	455,412
Net assets, beginning of year	1,606,391	3,817	1,610,208
Net assets, end of year	$ 2,060,358	$ 5,262	$ 2,065,620

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

AARP

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019
(in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 216,768	$ 455,412
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	63,296	66,999
Change in allowance for uncollectible accounts	1,319	(489)
Changes other than net periodic benefit cost	92,063	4,714
Net realized and unrealized gain on investments	(259,601)	(426,869)
Net gain on sale of property	(47,755)	-
Deferred income taxes	975	(1,928)
Changes in operating assets and liabilities:		
Accounts receivable	3,212	(9,527)
Prepaid expenses and other assets	3,153	657
Accounts payable and accrued expenses	(2,496)	2,145
Insurance premiums payable	(53,645)	22,608
Deferred revenue and other liabilities	35,308	(1,935)
Deferred membership dues	(18,796)	(9,379)
Accrued pension liability	53,419	(52,768)
Accrued postretirement health benefits	8,258	11,606
Net cash provided by operating activities	95,478	61,246
Cash flows from investing activities:		
Proceeds from sale of property	67,089	-
Purchases of property and equipment	(87,773)	(43,410)
Proceeds from sale and maturities of investments	4,954,262	5,039,250
Purchases of investments	(5,019,198)	(5,006,662)
Net cash used in investing activities	(85,620)	(10,822)
Net increase in cash and cash equivalents	9,858	50,424
Cash and cash equivalents, beginning of year	415,259	364,835
Cash and cash equivalents, end of year	$ 425,117	$ 415,259
Supplemental disclosures:		
Cash paid for interest	$ 9,973	$ 10,915
Cash paid for income taxes	$ 7,200	$ 3,903
Operating lease liabilities arising from obtaining right of use assets (ROU assets)	$ 38,637	$ 13,262

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

NOTE 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"). AARP, Inc.'s mission is to empower people to choose how they live as they age.

The programs and activities of AARP, Inc. and its affiliates include education, advocacy, research, service programs, other social welfare activities and 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. In addition, AARP, Inc. has offices in all fifty U.S. states, Puerto Rico and the U.S. Virgin Islands, as well as a membership processing center located in Lakewood, California.

AARP Services, Inc.

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

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

ASI Fitness Inc. ("ASI Fitness") was incorporated in Delaware in July 2018, as a wholly-owned taxable subsidiary of AARP Services. ASI Fitness was formed to design, develop, and market health and fitness centers to the 50+ community. Fitness centers will be operated by a third-party management company. The first fitness center is expected to open in the second half of 2021.

AARP Insurance Plan

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

AARP Foundation

AARP 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 to achieve their best life. AARP Foundation 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.

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.

Wish of a Lifetime

Wish of a Lifetime ("WOL") was organized in Denver, Colorado in 2008 for the purpose of granting wishes to people 65 and older in recognition of their special accomplishments, contributions and sacrifices. WOL became an affiliate of AARP, Inc. in 2020 and qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for WOL is obtained primarily through contributions from AARP, Inc. and donations from corporations, foundations and individuals. WOL's Board of Directors is comprised of members appointed by AARP, Inc.

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 other special purpose taxable affiliated entities own and operate the AARP, Inc. headquarters building located in Washington, D.C., the related parking garage facilities and a building in California. These properties are primarily occupied by AARP, Inc. and its affiliates.

NOTE 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 accompanying consolidated financial statements do not include the operations and accounts of nearly 850 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 ("U.S. GAAP").

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:

Net Assets Without Donor Restriction

Represent net assets which are not subject to donor-imposed stipulations and are fully available to be utilized in any of AARP's programs or supporting services. Net assets without donor restrictions include amounts designated for specific purposes by AARP's Board of Directors (Note 17).

Net Assets With Donor Restriction

Represent net assets which are subject to donor-imposed stipulations whose use is restricted by time and/or purpose.

Measure of Operations

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

Cash and Cash Equivalents

Cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase. As of December 31, 2020 and 2019, $260,091,000 and $311,514,000, 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 reported at fair value. Changes in fair value are reported as investment gain/loss in the accompanying consolidated statements of activities.

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

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

Hedge funds, private equity funds and private real estate funds are carried at net asset values as provided by the investment managers as of the reporting date. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. In 2020 and 2019, these estimated fair values represented approximately 32% and 30%, respectively, of total investments.

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

Fair Value Measurements

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

These levels are:

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

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

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

Level 3 - Unobservable inputs that cannot be corroborated by observable market data and, therefore, require other pricing assumptions or methodologies in the determination of fair value.

AARP's interests in alternative investment funds such as institutional mutual funds, private equity, real estate and hedge funds are generally reported at the net asset value ("NAV") per share by the fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. These funds, which use NAV as a practical expedient to estimate fair value, are not classified in the fair value hierarchy.

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.

Fundraising Expenses

Fundraising expenses, which are reported as part of management and general expenses within the accompanying consolidated statements of activities, totaled $30,562,000 and $33,798,000 for the years ended December 31, 2020 and 2019, respectively.

Volunteer Services

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

Income Taxes

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

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

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

AARP is exempt from income tax under IRC section 501(c)(4), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. AARP has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. AARP has determined that there are no material uncertain tax positions that require recognition or disclosure in the accompanying consolidated financial statements.

Advertising Expenses

AARP expenses advertising costs as incurred except to the extent of any direct response marketing costs that qualify for capitalization. These costs include brand awareness, member acquisition and retention, member program marketing, and advocacy advertising. For the years ended December 31, 2020 and 2019, advertising expense totaled $331,466,000 and $312,971,000, respectively, and no costs were capitalized.

Revenue Recognition

AARP recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration AARP expects to be entitled to in exchange for those goods or services.

Leases

AARP recognizes right-of-use assets ("ROU assets") and lease liabilities at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets are reported in property and equipment, net and the related lease liabilities are recorded in deferred revenue and other liabilities in the accompanying consolidated statements of financial position. ROU assets also include adjustments related to prepaid lease payments, deferred rent and lease incentives. None of AARP's operating lease agreements explicitly state a borrowing rate. To determine its incremental borrowing rate, AARP calculates the hypothetical fully-secured borrowings to fund each respective lease over the lease term as of the lease commencement date, based on AARP's implicit borrowing rate. Additionally, AARP elected the practical expedient to exclude the value of leases with a term of 12 months or less in the accompanying consolidated statements of financial position.

Use of Estimates

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

NOTE 3 - REVENUE RECOGNITION

Membership Dues

AARP offers membership for terms of one, two, three, five years or longer. AARP satisfies its performance obligation and recognizes revenue evenly over the membership term as its members simultaneously receive and consume the benefits over that timeframe. Generally, membership does not commence until after AARP receives payment.

Disaggregated membership dues revenue, follows (in thousands):

	2020	2019
Membership dues (by term):		
One year	$ 131,676	$ 129,792
Two and three years	79,741	81,455
Five years and greater	89,243	89,199
	$ 300,660	$ 300,446

Payments received for membership dues in advance of AARP satisfying its performance obligation are recorded within deferred membership dues in the accompanying consolidated statements of financial position. The changes in deferred membership dues were caused by normal timing differences between the satisfaction of performance obligations and customer payments.

For the years ended December 31, 2020 and 2019, AARP recognized revenue of $241,396,000 and $244,763,000, respectively, from amounts that were included in deferred membership dues at the beginning of the year.

At December 31, 2020, deferred membership dues totaled $516,740,000. Of that amount, 45%, 85% and 97% of the performance obligation surrounding this liability is expected to be satisfied within 1, 3 and 5 years, respectively, and the remaining thereafter.

At December 31, 2019, deferred membership dues totaled $535,536,000. Of that amount, 45%, 84% and 97% of the performance obligation surrounding this liability is expected to be satisfied within 1, 3 and 5 years, respectively, and the remaining thereafter.

Royalties

Royalties are received from AARP-branded third-party providers of member benefit programs in return for the rights to use AARP's intellectual property (including name, logo and membership information) in offering programs. For royalty agreements which include fixed fee consideration, revenue is recognized ratably over the term of the agreement. For royalty agreements which include variable consideration, revenue is recognized when the member purchases a good or service from an AARP-branded third-party provider.

Disaggregated royalty revenue, follows (in thousands):

	2020	2019
Royalty revenue (by product):		
Health products and services	$ 752,473	$ 719,001
Financial products and services	223,646	232,551
Lifestyle products and services	25,526	25,454
	$ 1,001,645	$ 977,006

Payments received for royalty agreements in advance of AARP satisfying its performance obligation are recorded within deferred revenue and other liabilities in the accompanying consolidated statements of financial position and recognized as revenue in future periods as performance obligations are satisfied. The changes in deferred revenue were caused by normal timing differences between the satisfaction of performance obligations and customer payments.

Royalties included within deferred revenue and other liabilities totaled $6,306,000 and $6,290,000 at December 31, 2020 and 2019, respectively. AARP recognized $6,290,000 and $6,287,000 in royalty revenue during 2020 and 2019, respectively, from amounts that were included in deferred revenue and other liabilities at December 31, 2019 and 2018.

For royalty agreements, which include variable consideration, management has elected the practical expedient permitted under Accounting Standards Codification ("ASC") 606 not to disclose information about remaining performance obligations.

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 in the month of each publication's issue date. AARP also sells advertising space on its website and in other e-channels. Digital advertising revenue is recognized over the term of the advertisement campaign period.

Disaggregated publications revenue, follows (in thousands):

	2020	2019
Publications advertising (by type):		
Print media	$ 105,637	$ 112,828
Digital media	31,068	32,040
	$ 136,705	$ 144,868

Management has elected the practical expedient permitted under ASC 606 not to disclose information about remaining performance obligations as these contracts have original terms that are one year or less.

Grant Revenue and Contributions

AARP recognizes government and private contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or right of release from the respective obligation provision on the part of the grantor and AARP has limited discretion over how funds transferred should be spent. As such, AARP recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

AARP reports contributions within net assets with donor restrictions if such gifts are restricted by the donor to a specific program and/or include an explicit or implied time restriction. Expirations of 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 within net assets without donor restrictions.

Amounts reported as grants receivable, within the accompanying consolidated statements of financial position, represent expenses incurred in advance of the receipt of funds. Funds received in advance of conditions being met are reported as deferred revenue and other liabilities within the accompanying consolidated statements of financial position. Federal funds are only received by the Foundation and LCE.

As of December 31, 2020, grants and contributions receivable totaled $15,700,000, all of which was due to be collected within one year. As of December 31, 2019, grants and contributions of $13,600,000 were due to be collected within one year with $486,000 due to be collected in 2021.

AARP's outstanding conditional contributions totaled $54,100,000 and $49,600,000, as of December 31, 2020 and 2019, respectively, which will be recognized as revenue as conditions are met.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation and LCE, while advocacy contributions are received by AARP, Inc. Contributions also include in-kind contributed professional services with a fair value totaling $7,274,000 and $22,353,000 for the years ended December 31, 2020 and 2019, respectively.

The Foundation and LCE administer grants received from federal agencies and private organizations. The following describes the two largest grant programs:

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"). The current DOL commitment expires in June 2021. Management expects that this funding will be renewed.

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

Tax-Aide provides volunteer assistance for federal and state income tax preparation assistance to low and moderate-income persons throughout the country, with special attention to those 60 and older. The Tax-Aide program is primarily funded by AARP, Inc. and the Internal Revenue Service ("IRS"). The current IRS commitment expires in September 2021. Management expects that this funding will be renewed.

The continuation of all grant programs beyond expiration of the current agreements is subject to future commitment of funds by sponsoring agencies (Note 18).

Program Income

Program income is comprised mainly of fees from providers for consulting services as well as fees from members and non-members for driver safety classes.

Payment for consulting services is usually due within 30 days of performance or invoicing. Under consulting services contracts, revenue is typically recognized at the point in time when goods or services are transferred to the customer. For contracts relating to AARP's marketing cooperatives, AARP provides a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The series is accounted for as a single performance obligation satisfied over time, and accordingly, revenue is recognized over the contract term using a measure of progress input.

Program revenue for the driver safety program, which is held either in a classroom setting or on-line, is recognized when the instruction is provided.

Disaggregated program income, follows (in thousands):

	2020	2019
Program income (by type):		
Consulting services	$ 50,648	$ 47,149
Driver safety	5,262	8,234
	$ 55,910	$ 55,383

Management has elected the practical expedient permitted under ASC 606 not to disclose information about remaining performance obligations surrounding program income as the contracts either have original terms that are one year or less or variable consideration allocated entirely to a wholly unsatisfied promise to transfer a distinct good or service that is part of a series.

NOTE 4 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and capital construction costs not financed with debt, were as follows (in thousands):

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 425,117	$ 415,259
Accounts receivable, net	109,305	113,836
Investments:		
Level 1	484,547	535,549
Level 2	432,755	507,064
Cash and cash equivalents	88,465	10,388
Institutional mutual funds	1,710,205	1,550,504
Less: Board designated funds	(753,974)	(660,058)
Less: Net assets with donor restrictions	(11,217)	(5,262)
Total financial assets available within one year	2,485,203	2,467,280
Liquidity resources:		
Revolving credit facility	50,000	50,000
Total financial assets and liquidity resources available within one year	$ 2,535,203	$ 2,517,280

AARP's cash flows are not subject to significant seasonal variations. Cash is received and disbursed consistently throughout the year. Significant portions of both the cash and cash equivalents balance and the investment balance are used annually by AARP for the payment of insurance premiums (Note 6).

NOTE 5 - NATURAL CLASSIFICATION OF EXPENSES

Expenses attributable to more than one program or supporting service are allocated using various cost allocation techniques such as headcount, square footage or time, which have been consistently applied.

Expenses by natural classification for the year ended December 31, 2020 consisted of the following (in thousands):

	Community Engagement and Outreach	Publications and Communications	Membership Engagement	Training and Education Programs	Membership Development	Management and General	Total
Compensation and benefits	$ 193,685	$ 44,534	$ 86,338	$ 19,030	$ 9,416	$ 114,852	$ 467,855
Professional services and research	69,984	44,440	55,276	4,857	7,630	27,018	209,205
Advertising and marketing	77,620	106,285	32,657	3,460	104,104	7,340	331,466
Technology	42,708	22,702	37,474	7,981	4,949	28,571	144,385
Printing and postage	19,797	114,484	18,988	1,802	104,716	15,848	275,635
Grants, donations, and volunteer expenses	40,174	-	-	63,008	-	-	103,182
Occupancy and office expense	36,154	17,597	9,470	4,581	4,757	43,419	115,978
Other	13,323	3,008	1,453	1,215	251	23,701	42,951
	$ 493,445	$ 353,050	$ 241,656	$ 105,934	$ 235,823	$ 260,749	$ 1,690,657

Expenses by natural classification for the year ended December 31, 2019 consisted of the following (in thousands):

	Community Engagement and Outreach	Publications and Communications	Membership Engagement	Training and Education Programs	Membership Development	Management and General	Total
Compensation and benefits	$ 186,290	$ 41,569	$ 82,335	$ 17,680	$ 7,224	$ 106,445	$ 441,543
Professional services and research	72,709	44,275	56,423	3,647	5,532	29,446	212,032
Advertising and marketing	71,062	117,982	31,346	3,465	81,425	7,691	312,971
Technology	47,564	21,367	31,594	7,199	2,390	25,018	135,132
Printing and postage	22,195	117,189	19,750	2,927	106,265	19,471	287,797
Grants, donations, and volunteer expenses	43,868	-	-	79,086	-	-	122,954
Occupancy and office expense	36,799	17,419	10,912	4,657	3,167	43,975	116,929
Other	29,617	3,622	5,162	1,778	246	26,495	66,920
	$ 510,104	$ 363,423	$ 237,522	$ 120,439	$ 206,249	$ 258,541	$ 1,696,278

NOTE 6 - 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") and Genworth Life Insurance Company ("Genworth") make certain types of insurance available to AARP, Inc. members.

The Plan, a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements referred to above, collections are remitted to third-party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc., which are reported as royalties in the accompanying consolidated statements of activities. AARP derived 62% and 60% of total royalties from the Plan for the years ended December 31, 2020 and 2019, respectively. Billing of insurance premiums and issuance of certificates of insurance to insured members are the responsibility of the third-party insurance carrier. The collection of premiums and submission of amounts due to the insurance carrier are classified as agency transactions and, as such, are not recorded as either revenue or expenses in the accompanying consolidated statements of activities. For the years ended December 31, 2020 and 2019, the Plan processed $11.8 billion and $11.6 billion, respectively, of premium payments from member participants.

Premiums collected from insured members are subsequently remitted to the third-party insurance carriers and are recorded as an offsetting liability, insurance premiums payable, in the accompanying consolidated statements of financial position. For the years ended December 31, 2020 and 2019, the Plan invested certain funds that generated net investment income of $68,753,000 and $110,401,000, respectively, which are included in investment gain in the accompanying consolidated statements of activities.

At December 31, 2020 and 2019, insurance premiums payable (in thousands) were comprised of the following:

	2020	2019
Premiums payable to the insurance underwriters	$ 938,300	$ 931,866
Payments received in advance	206,729	263,547
Unprocessed and partial payments	38,894	42,155
Total insurance premiums payable	$ 1,183,923	$ 1,237,568

NOTE 7 - INVESTMENTS

Investments as of December 31, 2020, summarized by their classification in the fair value hierarchy or NAV, follow (in thousands):

	Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
Global and international	$ 757,466	$ 19,158	$ -	$ 738,308
U.S. small cap	63,815	63,815	-	-
Emerging markets	4,109	-	-	4,109
U.S. large-mid cap	558,479	40,639	-	517,840
Fixed income securities and funds:				
U.S. corporate and investment grade	294,344	180,573	104,424	9,347
Global and international	144,626	260	28,232	116,134
U.S. government and treasury securities	168,590	168,590	-	-
Mortgage and asset-backed	283,185	-	283,185	-
International government	7,463	-	7,463	-
Short-term	270	270	-	-
U.S. fixed income	127,263	11,242	-	116,021
High-yield	208,446	-	-	208,446
Municipal	9,451	-	9,451	-
Real assets and commodity funds:				
Commingled real estate funds - U.S.	365,096	-	-	365,096
Private real estate funds - U.S.	49,373	-	-	49,373
Infrastructure	47,503	-	-	47,503
Hedge funds:				
Multi-strategy	167,549	-	-	167,549
Global macro	68,023	-	-	68,023
Equity long/short	98,063	-	-	98,063
Equity market neutral	40,709	-	-	40,709
Event driven/credit	125,093	-	-	125,093
Private equity funds:				
Private equity funds - U.S.	235,954	-	-	235,954
Private equity funds - Global	107,577	-	-	107,577
Total	3,932,447	$ 484,547	$ 432,755	$ 3,015,145
Cash and cash equivalents held for investment	88,465			
Total investments	$ 4,020,912			

Investments as of December 31, 2019, summarized by their classification in the fair value hierarchy or NAV, follow (in thousands):

	Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
Global and international	$ 793,722	$ 81,565	$ -	$ 712,157
U.S. small cap	52,852	52,852	-	-
Emerging markets	6,237	151	-	6,086
U.S. large-mid cap	502,578	101,910	-	400,668
Fixed income securities and funds:				
U.S. corporate and investment grade	223,279	103,794	109,763	9,722
Global and international	264,021	178	34,554	229,289
U.S. government and treasury securities	184,001	184,001	-	-
Mortgage and asset-backed	351,178	-	351,178	-
International government	7,497	-	7,497	-
Short-term	267	267	-	-
U.S. fixed income	60,413	10,831	-	49,582
High-yield	143,000	-	-	143,000
Municipal	4,072	-	4,072	-
Real assets and commodity funds:				
Commingled real estate funds - U.S.	386,761	-	-	386,761
Private real estate funds - U.S.	38,333	-	-	38,333
Hedge funds:				
Multi-strategy	134,661	-	-	134,661
Global macro	95,942	-	-	95,942
Equity long/short	75,234	-	-	75,234
Equity market neutral	32,198	-	-	32,198
Event driven/credit	90,980	-	-	90,980
Private equity funds:				
Private equity funds - U.S.	156,177	-	-	156,177
Private equity funds - Global	82,584	-	-	82,584
Total	3,685,987	$ 535,549	$ 507,064	$ 2,643,374
Cash and cash equivalents held for investment	10,388			
Total investments	$ 3,696,375			

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 Level 2 of the hierarchy. The values of U.S. Treasury securities are included in Level 1 of the hierarchy, based on unadjusted market prices as of the measurement date.

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

Information with respect to redemption terms, strategies, risks and funding commitments for investments based on NAV, follows (in thousands):

	2020 NAV	Unfunded Commitments	2019 NAV	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:						
U.S. large-mid cap equity [a]	$ 517,840	n/a	$ 400,668	daily	none or 2 days	n/a
Emerging markets equity (b)	4,109	n/a	6,086	3 times/month	2 days	n/a
Global and international equity (c)	738,308	n/a	712,157	daily, weekly,3 times/month, semi-monthly, monthly	1-30 days	n/a
Global and international fixed income (d)	116,134	n/a	229,289	daily	none	n/a
U.S. corporate and investment grade (e)	9,347	n/a	9,722	daily	none	n/a
U.S. fixed income [f]	116,021	n/a	49,582	daily	none	n/a
High-yield (g)	208,446	n/a	143,000	monthly	45 days	n/a
Hedge funds:						
Multi-strategy (h)	167,549	4,287	134,661	semi-monthly, monthly, quarterly, bi-annually, annually	45 - 90 days	Lock-up provisions range from 0-3 year
Global macro (i)	68,023	n/a	95,942	monthly	2 - 60 days	Lock-up provisions range from 0-1 year
Equity long/short [j]	98,063	n/a	75,234	monthly, quarterly	30 - 65 days	Lock-up provisions range from 0-3 year
Equity market neutral (k)	40,709	n/a	32,198	monthly	90 days	none
Event driven/credit (l)	125,093	4,700	90,980	quarterly	60 days	0 - 6 months
Real assets and commodity funds:						
Commingled real estate funds - U.S. (m)	365,096	-	386,761	monthly, quarterly	5 - 90 days	n/a
Private real estate funds - U.S. (n)	49,373	57,706	38,333	n/a	n/a	n/a
Infrastructure (o)	47,503	27,525	-	quarterly, annually	90 - 180 days	n/a
Private equity funds:						
Private equity funds - U.S. (p)	235,954	163,786	156,177	n/a	n/a	n/a
Private equity funds - Global (q)	107,577	109,132	82,584	n/a	n/a	n/a
	$ 3,015,145	$ 367,136	$ 2,643,374			

(a) This category includes two institutional mutual funds. The funds employ a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.

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

(c) This category includes several institutional mutual funds. These funds employ both active and passive investment strategies seeking to replicate or exceed various well-known global market indices.

(d) This category includes one institutional mutual fund. The fund employs an active investment approach as it seeks to outperform a blended global fund.

(e) This category includes one active fund manager who seeks long-term return in excess of the broad U.S. bond market.

(f) This category is managed by one fund manager who employs different sector funds in an effort to replicate the performance of a well-known fixed income index.

(g) This category is managed by one fund manager who invests in high-yield bonds.

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

(i) This category includes hedge funds that use directional strategies, such as long/short strategies. These funds use leverage and include global investments in a wide range of instruments including, but not limited to, equity, debt and derivatives to achieve long-term capital appreciation.

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

(k) This category includes a hedge fund which includes an equity-focused portfolio with sector-specific, market neutral sub-portfolios to achieve long-term appreciation. This hedge fund also employs various complementary equity-focused investment strategies and may also invest in convertible bonds and other credit-based instruments.

(l) This category includes hedge funds that employ an event driven strategy. These funds are credit/debt-focused with the objective of earning superior risk-adjusted returns. These funds seek to exploit situations to invest in securities and financial instruments, mergers and acquisitions (or “risk”) arbitrage situations and convertible arbitrage situations, both in the U.S. and globally.

(m) This category includes commingled funds which invest in multi-family, industrial, retail and commercial real estate located in the U.S. with the objective of seeking attractive returns, primarily through income and to a lesser extent capital appreciation, while limiting downside risk. The funds have both relative and real return objectives. This category also includes a real estate investment trust (“REIT”) fund with the objective to track the return and risk characteristics of a well-known REIT index.

(n) This category includes investments in real estate funds, private real estate partnerships and other structured investment vehicles that own real estate related assets. This asset category provides diversification across geographies, managers and investment strategies. Portions of this category invest in private real estate funds focused on high-quality office, retail, multi-family and industrial real estate located in the largest U.S. markets. The investment objective of this category is income and capital appreciation. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds.

(o) This category includes open-ended private funds which seek to invest in a diversified portfolio of global infrastructure real assets within the U.S. and Western Europe. The Fund seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives.

(p) This category includes investments in private equity funds with a focus on early through late stage U.S. companies with high potential growth, primarily in technology and healthcare related industries. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds.

(q) This category includes investments in private equity funds which focus on global investments including stressed and distressed opportunities as well as early-stage to later-stage companies with investments across geographies, industries and asset categories. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the fund.

As of December 31, 2020 and 2019, investments of $987,021,000 and $967,107,000, respectively, are held by the Plan for the payment of member insurance premiums (Note 6).

NOTE 8 - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, as of December 31 were comprised of the following (in thousands):

	2020	2019
Insurance premiums	$ 37,501	$ 41,528
Royalties	20,822	25,162
Publication advertising	15,903	17,747
Grants	13,351	12,777
Contributions	5,072	2,886
Program fees	2,877	2,523
Other	15,564	11,679
Accounts receivable, gross	111,090	114,302
Less: Allowance for doubtful accounts	(1,785)	(466)
Accounts receivable, net	$ 109,305	$ 113,836

The carrying value of accounts receivable is reduced by an appropriate allowance, if needed, for uncollectible accounts. AARP determines its allowance by considering a number of factors, including the length of time receivables are past due, previous loss history, the customer or donor's current ability to pay their obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. AARP writes off accounts receivables when they become uncollectible, with any payments subsequently received on such receivables recorded as income in the period received. The allowance for doubtful accounts as of the years ended December 31, 2020 and 2019 is related solely to outstanding publication advertising receivables. This allowance is based on a periodic review of customers' balances, including an evaluation of payment history, recent payment trends and an assessment of customer's creditworthiness.

NOTE 9 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, as of December 31 was comprised of the following (in thousands):

	2020	2019
Land	$ 46,376	$ 53,023
Buildings and improvements	323,769	349,720
Furniture and equipment	99,401	108,505
Computer software	304,283	292,469
Leasehold improvements	17,032	14,572
	790,861	818,289
Less: Accumulated depreciation and amortization	(460,320)	(456,217)
Property and equipment before ROU assets	330,541	362,072
ROU assets	87,074	74,250
Less: Accumulated amortization	(9,489)	(14,843)
ROU assets, net	77,585	59,407
Property and equipment, net	$ 408,126	$ 421,479

After reviewing its long-term space needs for employees, AARP, Inc. sold one of its properties in Washington, D.C. during 2020. The sale of this building, which had a net book value of $19,334,000 at the time of sale, generated a gain of $47,755,000 and is recorded in other revenue in the accompanying consolidated statement of activities.

NOTE 10 - LEASES

AARP assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys AARP’s right to control the use of an identified asset for a period of time in exchange for consideration. AARP’s lease arrangements consist of operating leases for office space, information centers, and warehouse facilities in multiple locations in the U.S. and its territories with various lease terms, none of which are considered financing leases. ROU assets, net of amortization, were $77,585,000 and $59,407,000, and lease liabilities were $81,874,000 and $63,269,000 at December 31, 2020 and 2019, respectively.

Lease terms may contain renewal and extension options and early termination features. These options do not impact the lease term as AARP is not reasonably certain that it will exercise these options. Additionally, AARP has elected to utilize the practical expedient and not separate out non-lease components from lease components for all property leases or ROU assets relating to office space, information centers, and warehouse facilities. Furthermore, there are no leases under which AARP guarantees a residual value or faces restrictions on its ability to finance activities.

Some of the lease arrangements do require AARP to make variable payments, outside of the regular rent payment, to cover such things as property taxes, utilities and common area maintenance.

Maturity Analysis

Maturities of lessee arrangements, excluding additional operating costs, at December 31, 2020 and 2019 were (in thousands):

2021	$ 16,117
2022	14,212
2023	11,947
2024	9,904
2025	8,234
Thereafter	29,652
Total undiscounted cash flows	90,066
Less: Net present value adjustment	(8,192)
Total	$ 81,874

	2020	2019
Lease cost and supplemental information (in thousands):		
Operating lease cost	$ 18,069	$ 16,148
Variable lease payments (1)	4,442	5,054
Short-term lease cost (2)	536	1,154
Total lease cost	$ 23,047	$ 22,356
Weighted-average remaining lease term - operating leases	8.2 years	4.7 years
Weighted-average discount rate - operating leases	2.65%	3.27%

(1) Represents variable lease payments for real estate taxes, utilities and common area maintenance
(2) Represents leases with a term of 12 months or less

NOTE 11 - NOTES PAYABLE

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

	2020	2019
Fixed rate notes, maturing May 2031, net of discount of $608 in 2020 and $647 in 2019 (a)	$ 124,392	$ 124,353
Variable rate notes, maturing May 2031 (b)	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034 (c)	25,000	25,000
Total notes payable	$ 199,392	$ 199,353

Interest expense for the years ended December 31, 2020 and 2019 totaled $9,921,000 and $10,914,000, respectively.

(a) Fixed Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured fixed rate notes in the aggregate amount of $125,000,000 for permanent financing of the AARP, Inc. Headquarters Building which bear interest at 7.5%. Interest is payable semi-annually. Based on the borrowing rates currently available to AARP for fixed rate bonds with similar terms and average maturities, the fair value of the $125,000,000 fixed rate debentures is approximately $186,769,000 and $182,856,000 as of December 31, 2020 and 2019, respectively.

(b) Variable Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured variable rate notes in the amount of $75,000,000, for permanent financing of the AARP, Inc. Headquarters Building. The variable rates were 0.11% and 1.65% at December 31, 2020 and 2019, respectively. Interest is payable monthly.

(c) District of Columbia Variable Rate Revenue Bonds

On October 21, 2004, the Foundation issued 30-year District of Columbia Variable Rate Revenue Bonds, Series 2004 in the amount of $25,000,000 to finance the purchase of office space located within the AARP, Inc. Headquarters Building. The bonds bear interest at a variable rate determined by the Remarketing Agent, based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The Foundation may elect at any time to convert to a fixed interest rate. As of December 31, 2020 and 2019, the notes had an interest rate of 0.09% and 1.72%, respectively.

The Foundation has obtained a letter of credit to secure repayment of the bonds. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of the bonds outstanding. There was no outstanding balance on the letter of credit as of December 31, 2020 and 2019. The Foundation's letter of credit expires October 21, 2023.

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% or (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 40 basis points. The credit facility expires on July 15, 2021. In 2020, there were no borrowings against the credit facility. In 2019, there were two borrowings from the credit facility, which were fully repaid by December 31, 2019.

Board Designated Sinking Fund

In 2001, the AARP, Inc. Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes payable (Note 17). In order to ensure that the Sinking Fund can repay the notes payable, the AARP, Inc. Board of Directors has approved annual increases to the Sinking Fund so that it will be fully funded by 2031. The balance in the Sinking Fund as of December 31, 2020 and 2019 totaled $157,200,000 and $152,900,000, respectively, the related assets of which were included within investments in the accompanying consolidated statements of financial position.

NOTE 12 - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31, 2020 and 2019, follow (in thousands):

	2020	2019
Current:		
Federal income tax	$ 6,443	$ 2,856
State income tax	2,382	1,182
Current income tax expense	8,825	4,038
Deferred:		
Federal income tax	803	1,382
State income tax	172	546
Deferred income tax expense	975	1,928
Total income tax expense	$ 9,800	$ 5,966

The significant components of the net deferred tax asset, which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position at December 31, 2020 and 2019, were as follows (in thousands):

	2020	2019
Deferred income tax assets:		
Employee benefits	$ 3,034	$ 2,792
Deferred revenue	4,205	5,130
Accrued expenses	-	925
Depreciation	311	117
Lease liability	12,298	3,915
Start-up expenses	630	322
Capital loss carryforward	6	33
Total deferred income tax assets	20,484	13,234
Deferred income tax liability:		
ROU asset	(11,805)	(3,669)
Accrued expenses	(89)	-
Property tax expense	(14)	(14)
Total deferred income tax liability	(11,908)	(3,683)
Net deferred income tax asset	$ 8,576	$ 9,551

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2020 and 2019 totaled approximately $7,200,000 and $3,903,000, respectively.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

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

During 2020, AARP made no discretionary employer contributions to the Pension Plan. In 2019, AARP discretionary employer contributions to the Pension Plan totaled $94,800,000. AARP was not required to make annual minimum contributions in 2020 or 2019. AARP plans to make a discretionary contribution of $40,200,000 to the Pension Plan in 2021.

The components of net periodic pension benefit cost for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Service cost	$ 48,452	$ 38,822
Interest cost	51,026	52,062
Expected return on plan assets	(72,959)	(64,502)
Amortization of actuarial loss	26,900	15,651
	$ 53,419	$ 42,033

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

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (1,407,600)	$ (1,164,582)
Service cost	(48,452)	(38,822)
Interest cost	(51,026)	(52,062)
Actuarial loss	(170,459)	(181,519)
Benefits paid	31,815	29,385
Benefit obligation at end of year	(1,645,722)	(1,407,600)
Change in plan assets:		
Fair value at beginning of year	1,176,599	914,660
Actual return on plan assets	132,581	196,524
Contribution to the plan	-	94,800
Benefits paid	(31,815)	(29,385)
Fair value at end of year	1,277,365	1,176,599
Accrued pension liability	$ (368,357)	$ (231,001)

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2020 and 2019 measurement dates were as follows:

	2020	2019
Discount rate	2.87%	3.54%
Future salary increases	4.00%	4.00%

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2020 and 2019 measurement dates were as follows:

	2020	2019
Discount rate	3.54%	4.35%
Expected long-term rate of return on plan assets	7.25%	7.25%
Future salary increases	4.00%	4.00%

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

2021	$ 37,952
2022	40,998
2023	44,009
2024	47,291
2025	50,683
Years 2026-2030	308,481

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2020 and 2019, follow (in thousands):

	2020	2019
Net actuarial loss	$ 346,431	$ 262,494

Estimated amount to be amortized into net periodic benefit cost in 2021 is approximately $36,500,000 from net actuarial loss.

In order to determine an appropriate return on plan assets, AARP considers its current asset allocation along with historical and expected returns that can be achieved with the various asset types in the Pension Plan. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 7.25%.

The weighted average asset allocation for plan assets is as follows at December 31, 2020 and 2019:

	2020	2019
Asset categories:		
Equity securities	55%	60%
Debt securities	26	34
Alternatives	18	4
Cash equivalents	1	2
	100%	100%

AARP adopted a new investment policy for its Pension Plan in 2019. The targeted allocation of the investment assets in the Pension Plan is for equities to comprise 39% of the investment portfolio, fixed income securities to comprise 23%, and alternatives, such as hedge funds, private equity and private real estate, to comprise the remaining 38%. It will take several years to fully implement the aforementioned investment targets as the process for identifying attractive alternative investment opportunities coupled with the inherent time lag for committed capital to be deployed by investment managers necessitates a multi-year time horizon for reaching the new investment goals.

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

	Minimum	Target	Maximum
Asset class:			
Equity securities	34%	39%	44%
Fixed Income	13%	23%	33%
Alternatives	23%	38%	53%
Cash	0%	0%	3%

As of December 31, 2020 and 2019, the fair value of AARP's Pension Plan assets, by asset category within the fair value hierarchy consisted of the following (in thousands):

	2020 Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
U.S. large-mid cap	$ 266,460	$ 18,106	$ -	$ 248,354
U.S. small cap	29,574	29,574	-	-
Global and international	411,473	1,092	-	410,381
Emerging markets	2,168	-	-	2,168
Fixed income securities and funds:				
Global and international	98,361	87,775	10,586	-
Mortgage and asset-backed	1,765	-	1,765	-
U.S. corporate and investment grade	205,859	75,570	27,973	102,316
Emerging markets	-	-	-	-
U.S. government and treasury securities	12,907	12,907	-	-
Short-term	103	-	-	103
High-yield	-	-	-	-
International government	1,111	-	1,111	-
Municipal	854	-	854	-
Real assets and commodity funds:				
Commingled real asset funds	69,162	-	-	69,162
Infrastructure	17,675	-	-	17,675
Hedge funds:				
Multi-strategy	47,276	-	-	47,276
Global macro	20,391	-	-	20,391
Equity long/short	35,375	-	-	35,375
Event driven/credit	24,716	-	-	24,716
Private equity				
U.S. domestic	11,304	-	-	11,304
Global and international	2,819	-	-	2,819
Balanced fund	9,726	-	-	9,726
Total	1,269,079	$ 225,024	$ 42,289	$ 1,001,766
Cash and cash equivalents	8,286			
Total investments	$ 1,277,365			

	2019 Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
U.S. large-mid cap	$ 258,236	$ 50,962	$ -	$ 207,274
U.S. small cap	23,761	23,761	-	-
Global and international	431,786	36,180	-	395,606
Emerging markets	3,569	-	-	3,569
Fixed income securities and funds:				
Global and international	131,185	82,693	6,766	41,726
Mortgage and asset-backed	6,867	-	6,867	-
U.S. corporate and investment grade	211,719	82,402	14,633	114,684
Emerging markets	14,868	14,868	-	-
U.S. government and treasury securities	7,944	7,944	-	-
Short-term	122	-	-	122
High-yield	14,578	14,578	-	-
International government	158	-	158	-
Municipal	402	-	402	-
Commingled real asset funds	40,176	-	-	40,176
Private equity				
U.S. domestic	2,596	-	-	2,596
Global and international	749	-	-	749
Balanced fund	10,173	-	-	10,173
Total	1,158,889	$ 313,388	$ 28,826	$ 816,675
Cash and cash equivalents	17,710			
Total investments	$ 1,176,599			

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, 2020 and 2019 was as follows (in thousands):

	2020 NAV	Unfunded Commitments	2019 NAV	Redemption Frequency	Redemption Notice period	Redemption Restrictions
Equity securities and funds:						
U.S. large-mid cap (a)	$ 248,354	N/A	$ 207,274	Daily	2 days	N/A
Global and international fund (b)	410,381	N/A	395,606	Daily, weekly, 3 times/month, semi-monthly, monthly	1-30 days	N/A
Emerging markets funds (c)	2,168	N/A	3,569	3 times/month	2 days	N/A
Fixed income securities and funds:						N/A
Various sector funds (d)	102,419	N/A	114,806	Daily	None	N/A
Global and international fund (e)	-	N/A	41,726	Monthly	15 days	N/A
Balanced fund (f)	9,726	N/A	10,173	Daily	none	N/A
Hedge funds:						
Multi-strategy (g)	47,276	N/A	-	Monthly, quarterly, semi-annually, annually	60-90 days	Lock-up provisions range from 0 to 3 years
Global macro (h)	20,391	N/A	-	Monthly, quarterly	10-60 days	Lock-up provisions range from 0 to 1 years
Equity long/short (i)	35,375	N/A	-	Monthly, quarterly	30-65 days	Lock-up provisions range from 0 to 3 years
Event driven/credit (j)	24,716	N/A	-	Quarterly	60 days	Lock-up provisions range from 0 to 6 months
Real assets and commodity funds:						
Commingled real estate funds (k)	69,162	-	40,176	Quarterly	60-90 days	N/A
Infrastructure (l)	17,675	10,689	-	Quarterly, annually	90-180 days	N/A
Private equity funds:						
Private equity fund - U.S. (m)	11,304	40,921	2,596	N/A	N/A	N/A
Private equity fund - Global (n)	2,819	22,587	749	N/A	N/A	N/A
	$ 1,001,766	$ 74,197	$ 816,675			

(a) This category includes one mutual fund and employs a passive investment strategy seeking to replicate the performance of a large-cap benchmark.

(b) This category includes several institutional mutual funds. These funds employ both active and passive investment strategies seeking to replicate or exceed various well-known global market indices.

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

(d) This category is invested with one fund manager who employs different sector funds to obtain the highest performance possible. This fund manager is given wide latitude under mutually-agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc.

(e) This category includes one actively managed fund during 2019 and was liquidated in 2020. The fund sought to provide returns in excess of a well-established international, fixed income index.

(f) This category includes a passively managed fund. The fund tracks an index, based upon the results from pension plans similar in size and asset exposure to AARP's Pension Plan. The objective of the fund manager is to meet the expected return of the index.

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

(h) This category invests in hedge funds that use directional strategies, such as long/short strategies. These funds use leverage and include global investments in a wide range of instruments including, but not limited to, equity, debt and derivatives to achieve long-term capital appreciation.

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

(j) This category includes hedge funds that employ an event driven strategy. These funds are credit/debt-focused with the objective of earning superior risk-adjusted returns. These funds seek to exploit situations to invest in securities and financial instruments, mergers and acquisitions (or "risk") arbitrage situations and convertible arbitrage situations, both in the U.S. and globally.

(k) This category includes commingled funds which invest in multi-family, industrial, retail and commercial real estate located in the U.S. with the objective of seeking attractive returns, primarily through income and to a lesser extent capital appreciation, while limiting downside risk. The funds have both relative and real return objectives.

(l) This category includes open-ended private funds which seek to invest in a diversified portfolio of global infrastructure real assets within the U.S. and Western Europe. The Fund seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives.

(m) This category includes investments in private equity funds which seek to acquire, improve and grow companies in the U.S. lower middle-market primarily through control-oriented growth, equity investments, strategic mergers and acquisitions, buyouts or recapitalizations. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds.

(n) This category includes investments in private equity funds which focus on global investments including stressed and distressed opportunities as well as early-stage to later-stage companies with investments across geographies, industries and asset categories. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the fund.

NOTE 14 - POSTRETIREMENT HEALTH BENEFITS

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

The components of net periodic postretirement health benefit cost for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Service cost	$ 5,405	$ 6,667
Interest cost	5,342	7,258
Amortization of prior service credit	-	(66)
Amortization of actuarial loss	-	951
	$ 10,747	$ 14,810

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):

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (151,836)	$ (169,363)
Service cost	(5,405)	(6,667)
Interest cost	(5,342)	(7,258)
Actuarial (loss) gain	(8,125)	28,247
Participant contributions	(793)	(755)
Benefits paid, net subsidy	3,281	3,960
Benefit obligation at end of year	(168,220)	(151,836)
Change in plan assets:		
Fair value at beginning of year	-	-
Employer contribution	2,488	3,205
Plan participants' contributions	793	755
Benefits paid	(3,281)	(3,960)
Fair value at end of year	-	-
Accrued postretirement health benefits	$ (168,220)	$ (151,836)

As of December 31, 2020 and 2019, the weighted average discount rates used in the actuarial valuation were as follows:

	2020	2019
End of year benefit obligation	2.87%	3.55%
Net periodic benefit cost	3.55%	4.32%

For measurement purposes, the health care cost trend rate was 6.00% for 2020 and 5.75% for 2019 (the rate is assumed to decrease gradually to 4.6% in 2028 and remain level thereafter).

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

2021	$ 5,067
2022	5,389
2023	5,752
2024	6,220
2025	6,674
Years 2026-2030	40,468

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Net actuarial loss	$ 13,939	$ 5,813

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, 2020 would have resulted in a $35,101,000 increase or a $27,299,000 decrease in the accumulated postretirement benefit obligation, and a $3,061,000 increase or a $2,258,000 decrease in the 2020 aggregate service and interest cost.

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, 2019 would have resulted in a $31,673,000 increase or a $24,568,000 decrease in the accumulated postretirement benefit obligation, and a $4,320,000 increase or a $3,003,000 decrease in the 2019 aggregate service and interest cost.

NOTE 15 - EMPLOYEE HEALTHCARE BENEFITS

AARP operates under a “pay as you go” model for employee health benefits, with obligations funded from general corporate assets. For the years ended December 31, 2020 and 2019, expenses for the AARP Welfare Plan for current healthcare benefits totaled $26,119,000 and $27,996,000, respectively. As of December 31, 2020 and 2019, AARP had a liability related to these benefits of $3,056,000 and $3,070,000, respectively, which was included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

NOTE 16 - 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 (the “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, 2020 and 2019, AARP employer contributions to this plan totaled $12,604,000 and $11,997,000, respectively.

NOTE 17 - BOARD DESIGNATED NET ASSETS

Net assets without donor restrictions that have been designated by AARP's Board of Directors at December 31, 2020 and 2019 were available to fund the following (in thousands):

	2020	2019
Debt retirement sinking fund (Note 11)	$ 157,200	$ 152,900
Foundation operating funds	530,244	501,523
LCE operating funds	66,345	5,635
WOL quasi-endowment	185	-
Board designated net assets	$ 753,974	$ 660,058

NOTE 18 - COMMITMENTS AND CONTINGENCIES

The Foundation and LCE receive a majority of their revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the respective governmental agencies or their designees. Liabilities, if any, arising from such regulatory audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a material adverse effect on the financial position, changes in net assets or cash flow of the Foundation or LCE.

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

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The COVID-19 pandemic is having a broad impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on AARP's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact AARP's financial position, changes in net assets and cash flows is uncertain and the accompanying consolidated financial statements include no adjustments relating to the effects of this pandemic. AARP has and will continue to make every effort to mitigate the current and future financial impacts of COVID-19.

NOTE 19 - SUBSEQUENT EVENTS

AARP evaluated its December 31, 2020 consolidated financial statements for subsequent events through March 16, 2021, the date the consolidated financial statements were available to be issued.

During January 2021, Older Adult Technical Services ("OATS") became an affiliate of AARP, Inc. OATS was organized in New York in 2004 for the purpose of developing curriculum and delivering training programs designed to help older adults understand and effectively use technology to achieve targeted outcomes in their social connectedness, health, civic engagement, financial security and creative expression. OATS qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for OATS is obtained primarily from donations from corporations, foundations, individuals and other grants. OATS' Board of Directors is comprised of members appointed by AARP, Inc.

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