Consolidated Financial Statements and Report of Independent Certified Public Accountants

AARP

December 31, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AARP and Affiliates as of December 31, 2019 and 2018, 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 17, 2020

AARP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018
(in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents (Note 2)	$ 415,259	$ 364,835
Accounts receivable, net (Notes 2 and 8)	113,836	103,820
Prepaid expenses and other assets (Notes 2 and 12)	48,742	47,541
Investments (Notes 2 and 7)	3,696,375	3,302,094
Property and equipment, net (Notes 2, 9 and 10)	421,479	381,693
Total assets	$ 4,695,691	$ 4,199,983
LIABILITIES		
Accounts payable and accrued expenses	$ 198,742	$ 196,597
Insurance premiums payable (Notes 6 and 7)	1,237,568	1,214,960
Deferred revenue and other liabilities (Notes 2, 3 and 10)	76,035	14,702
Deferred membership dues (Note 3)	535,536	544,915
Accrued pension liability (Note 13)	231,001	249,922
Accrued postretirement health benefits (Note 14)	151,836	169,363
Notes payable (Note 11)	199,353	199,316
Total liabilities	2,630,071	2,589,775
Commitments and contingencies (Note 18)		
NET ASSETS		
Without donor restrictions:		
Undesignated (Note 2)	1,400,300	1,088,014
Board designated (Notes 2 and 17)	660,058	518,377
Total net assets without donor restrictions	2,060,358	1,606,391
With donor restrictions (Note 2)	5,262	3,817
Total net assets	2,065,620	1,610,208
Total liabilities and net assets	$ 4,695,691	$ 4,199,983

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

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 STATEMENT OF ACTIVITIES

For the year ended December 31, 2018
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Membership dues (Note 3)	$ 299,865	$ -	$ 299,865
Royalties (Notes 3 and 6)	938,892	-	938,892
Publications advertising (Note 3)	141,434	-	141,434
Grant revenue (Note 3)	95,983	-	95,983
Program income (Note 3)	65,141	-	65,141
Contributions (Note 3)	99,953	3,517	103,470
Other	4,872	-	4,872
Net assets released from restrictions	2,655	(2,655)	-
Total operating revenues	1,648,795	862	1,649,657
Operating expenses (Note 5)			
Program services:			
Community engagement and outreach	488,555	-	488,555
Publications and communications	360,353	-	360,353
Membership engagement	244,787	-	244,787
Training and education programs	115,690	-	115,690
Total program services	1,209,385	-	1,209,385
Supporting services:			
Membership development	204,789	-	204,789
Management and general	245,165	-	245,165
Total supporting services	449,954	-	449,954
Total operating expenses	1,659,339	-	1,659,339
Change in net assets from operating activities	(10,544)	862	(9,682)
Non-operating activity			
Investment loss (Notes 2 and 6)	(107,230)	-	(107,230)
Income taxes (Notes 2 and 12)	(1,090)	-	(1,090)
Other components of net periodic benefit cost (Notes 13 and 14)	(22,016)	-	(22,016)
Pension and postretirement activity other than net periodic benefit cost (Notes 13 and 14)	31,643	-	31,643
Change in net assets	(109,237)	862	(108,375)
Net assets, beginning of year	1,715,628	2,955	1,718,583
Net assets, end of year	$ 1,606,391	$ 3,817	$ 1,610,208

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

AARP

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018
(in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 455,412	$ (108,375)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization, operating leases and other	66,999	57,963
Change in allowance for uncollectible accounts	(489)	598
Changes other than net periodic benefit cost	4,714	(31,643)
Net realized and unrealized (gain) loss on investments	(426,869)	142,148
Deferred income taxes	(1,928)	777
Changes in operating assets and liabilities:		
Accounts receivable	(9,527)	(1,782)
Prepaid expenses and other assets	657	(826)
Accounts payable and accrued expenses	2,145	1,176
Insurance premiums payable	22,608	31,669
Deferred revenue and other liabilities	(1,935)	(4,277)
Deferred membership dues	(9,379)	4,005
Accrued pension liability	(52,768)	9,349
Accrued postretirement health benefits	11,606	13,902
Net cash provided by operating activities	61,246	114,684
Cash flows from investing activities:		
Purchases of property and equipment	(43,410)	(107,268)
Proceeds from sale and maturities of investments	5,039,250	4,635,600
Purchases of investments	(5,006,662)	(4,739,166)
Net cash used in investing activities	(10,822)	(210,834)
Net increase (decrease) in cash and cash equivalents	50,424	(96,150)
Cash and cash equivalents, beginning of year	364,835	460,985
Cash and cash equivalents, end of year	$ 415,259	$ 364,835
Supplemental disclosures:		
Cash paid for interest	$ 10,915	$ 10,643
Cash paid for income taxes	$ 3,903	$ 4,455
Operating lease liabilities arising from obtaining right of use assets (ROU assets)	$ 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"). The vision of AARP, Inc. is a society in which all people live with dignity and purpose, and fulfill their goals and dreams; AARP, Inc.'s purpose 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 charitable programs serving the needs of older persons.

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

AARP Services, Inc.

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

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

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 late 2020.

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 - and 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.

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. During 2019, AARP Institute was legally dissolved and no longer exists as separate legal entity. 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 900 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, 2019 and 2018, $311,514,000 and $295,736,000, 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 income/loss in the accompanying consolidated statements of activities.

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

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

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 2019 and 2018, these estimated fair values represented approximately 30% and 29%, 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 $33,798,000 and $31,245,000 for the years ended December 31, 2019 and 2018, 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 Code. AARP has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it 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, 2019 and 2018, advertising expense totaled $312,971,000 and $314,189,000, 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.

In 2019, AARP adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional. As required by ASU 2018-08, AARP applied the requirements to agreements that either were not completed as of December 31, 2018 or entered into after January 1, 2019.

Leases

AARP adopted ASC 842, *Leases*, on January 1, 2019. This ASC altered the way AARP accounts for its leasing arrangements, most notably requiring the recognition of right-of-use assets (“ROU assets”) and lease liabilities at the lease commencement for operating leases. 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 statement of financial position.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. 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. In order 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.

AARP elected certain practical expedients allowed under ASC 842. These include carrying forward historical conclusions related to (1) contracts that contain leases, (2) initial direct costs, and (3) classification of operating and financing leases. 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. Finally, AARP elected not to adjust prior-period balances. By opting not to retrospectively change the consolidated statement of financial position for the period ended December 31, 2018, the presentation in the year of adoption between the two years in not comparable.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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):

	2019	2018
Membership dues (by term):		
One year	$ 129,792	$ 127,493
Two and three years	81,455	82,538
Five years and greater	89,199	89,834
	$ 300,446	$ 299,865

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, 2019 and 2018, AARP recognized revenue of $244,763,000 and $245,175,000, respectively, from amounts that were included in deferred membership dues at the beginning of the year.

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.

At December 31, 2018, deferred membership dues totaled $544,915,000. Of that amount, 45%, 85% and 97%, of the performance obligation surrounding this liability was 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):

	2019	2018
Royalty revenue (by product):		
Health products and services	$ 719,001	$ 680,349
Financial products and services	232,551	237,488
Lifestyle products and services	25,454	21,055
	$ 977,006	$ 938,892

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 $6,290,000 and $6,287,000 at December 31, 2019 and 2018, respectively. AARP recognized $6,287,000 and $8,352,000 in royalty revenue during 2019 and 2018, respectively, from amounts that were included in deferred revenue and other liabilities at December 31, 2018 and 2017.

For royalty agreements, which include variable consideration, management has elected the practical expedient permitted under 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):

	2019	2018
Publications advertising (by type):		
Print media	$ 112,828	$ 109,704
Digital media	32,040	31,730
	$ 144,868	$ 141,434

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

In 2018, grant revenue was recognized to the extent allowable expenses were incurred and contributions, including unconditional promises to give, were recognized in the period received or pledged.

Beginning in 2019, with the adoption of ASU 2018-08, 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 within the accompanying consolidated statements of financial position. Federal funds are only received by the Foundation and LCE.

As of December 31, 2019, grants and contributions receivable of approximately $13.5 million were due to be collected within one year, and approximately $486,000 was due to be collected in 2021. As of December 31, 2018, all grants and contributions receivable were due to be collected within one year.

Due to the adoption of ASU 2018-08, as of December 31, 2019, AARP's outstanding conditional contributions totaled approximately $49.6 million, which will be recognized as revenue as conditions are met. As of December 31, 2018, AARP did not have any conditional contributions. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying statements of financial position.

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 $22,353,000 and $20,851,000 for the years ended December 31, 2019 and 2018, 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 2020. 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 2020. 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):

	2019	2018
Program income (by type):		
Consulting services	$ 47,149	$ 56,844
Driver safety	8,234	8,297
	$ 55,383	$ 65,141

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, 2019 and 2018, respectively, 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):

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 415,259	$ 364,835
Accounts receivable, net	113,836	103,820
Investments:		
Level 1	535,549	826,829
Level 2	507,064	489,625
Institutional mutual funds	1,550,504	893,468
Less: Board designated funds	(660,058)	(518,377)
Less: Net assets with donor restrictions	(5,262)	(3,817)
Total financial assets available within one year	2,456,892	2,156,383
Liquidity resources:		
Revolving credit facility	50,000	50,000
Total financial assets and liquidity resources available within one year	$ 2,506,892	$ 2,206,383

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, 2019 consisted of the following:

	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

Expenses by natural classification for the year ended December 31, 2018 consisted of the following:

	Community Engagement and Outreach	Publications and Communications	Membership Engagement	Training and Education Programs	Membership Development	Management and General	Total
Compensation and benefits	$ 180,552	$ 40,599	$ 84,481	$ 16,567	$ 6,700	$ 101,632	$ 430,531
Professional services and research	74,015	35,417	56,991	3,300	2,309	19,896	191,928
Advertising and marketing	63,316	125,463	27,809	2,665	85,095	9,841	314,189
Technology	38,077	19,856	32,597	7,208	2,378	25,087	125,203
Printing and postage	23,515	116,000	26,454	3,043	103,960	17,698	290,670
Grants, donations, and volunteer expenses	42,474	-	-	76,619	-	-	119,093
Occupancy and office expense	37,384	18,947	11,964	4,305	3,979	48,576	125,155
Other	29,222	4,071	4,491	1,983	368	22,435	62,570
	$ 488,555	$ 360,353	$ 244,787	$ 115,690	$ 204,789	$ 245,165	$ 1,659,339

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

The Plan, a grantor trust, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements 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 60% and 59% of total royalties from the Plan for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, the Plan processed $11.6 billion and $11.4 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, 2019 and 2018, the Plan invested certain funds that generated net investment income (losses) of $110,401,000 and $(20,688,000), respectively, which are included in investment gain (loss) in the accompanying consolidated statements of activities.

At December 31, 2019 and 2018, insurance premiums payable (in thousands) were comprised of the following:

	2019	2018
Premiums payable to the insurance underwriters	$ 931,866	$ 926,533
Payments received in advance	263,547	252,309
Unprocessed and partial payments	42,155	36,118
Total insurance premiums payable	$ 1,237,568	$ 1,214,960

NOTE 7 - INVESTMENTS

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			

Investments as of December 31, 2018, 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	$ 421,056	$ 252,311	$ -	$ 168,745
U.S. small cap	60,410	60,410	-	-
Emerging markets	77,051	72,104	-	4,947
U.S. large-mid cap	458,334	140,050	-	318,284
Fixed income securities and funds:				
U.S. corporate and investment grade	213,927	89,625	124,302	-
Global and international	255,156	163	45,176	209,817
U.S. government and treasury securities	202,726	202,726	-	-
Mortgage and asset-backed	313,026	-	313,026	-
International government	4,762	-	4,762	-
Short-term	409	409	-	-
U.S. fixed income	73,072	9,031	-	64,041
High-yield	127,634	-	-	127,634
Municipal	2,359	-	2,359	-
Real assets and commodity funds:				
Commingled real asset funds	125,454	-	-	125,454
Commingled real estate funds - U.S.	371,638	-	-	371,638
Private real estate funds - U.S.	29,286	-	-	29,286
Hedge funds:				
Multi-strategy	130,813	-	-	130,813
Global macro	86,912	-	-	86,912
Equity long/short	71,879	-	-	71,879
Equity market neutral	29,592	-	-	29,592
Event driven/credit	82,657	-	-	82,657
Private equity funds:				
Private equity funds - U.S.	93,913	-	-	93,913
Private equity funds - Global	47,762	-	-	47,762
Total	3,279,828	$ 826,829	$ 489,625	$ 1,963,374
Cash and cash equivalents held for investment	22,266			
Total investments	$ 3,302,094			

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):

	2019 NAV	Unfunded Commitments	2018 NAV	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:						
U.S. large-mid cap equity (a)	$ 400,668	n/a	$ 318,284	daily	none or 2 days	n/a
Emerging markets equity (b)	6,086	n/a	4,947	3 times/month	2 days	n/a
Global and international equity (c)	712,157	n/a	168,745	daily, 3 times/month, semi-monthly, monthly	1-30 days	n/a
Global and international fixed income (d)	229,289	n/a	209,817	daily, monthly	none or 30 days	n/a
U.S. corporate and investment grade (e)	9,722	n/a	-	daily	none	n/a
U.S. fixed income (f)	49,582	n/a	64,041	daily	none	n/a
High-yield (g)	143,000	n/a	127,634	monthly	10 days or 45 days	n/a
Hedge funds:						
Multi-strategy (h)	134,661	8,238	130,813	semi-monthly, monthly, quarterly, bi-annually, annually	45 - 90 days	Lock-up provisions range from 2-3 years
Global macro (i)	95,942	n/a	86,912	monthly	2 - 90 days	Lock-up provisions range from 0-1 year
Equity long/short (j)	75,234	n/a	71,879	monthly, quarterly	30 days	Lock-up provisions range from 0-1 year
Equity market neutral (k)	32,198	n/a	29,592	monthly	90 days	none
Event driven/credit (l)	90,980	5,150	82,657	quarterly	60 days	none
Real assets and commodity funds:						
Commingled real asset funds (m)	-	n/a	125,454	daily	2 days	n/a
Commingled real estate funds - U.S. (n)	386,761	11,325	371,638	monthly, quarterly	5 - 90 days	n/a
Private real estate funds - U.S. (o)	38,333	57,403	29,286	n/a	n/a	n/a
Private real asset funds - Global (p)	-	37,000	-	quarterly	90 days	n/a
Private equity funds:						
Private equity funds - U.S. (q)	156,177	161,193	93,913	n/a	n/a	n/a
Private equity funds - Global (r)	82,584	90,723	47,762	n/a	n/a	n/a
	$ 2,643,374	$ 371,032	$ 1,963,374			

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

(c) This category is comprised of 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 is comprised of two institutional mutual funds. One fund seeks to replicate the performance of a global, developed market index. Another institutional fund employs an active investment approach as it seeks to outperform the same index as the aforementioned fund.

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

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

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

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

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

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

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

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

(n) This 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 class 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.

(o) 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 class provides diversification across geographies, managers and investment strategies. Portions of this class 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 class is income and capital appreciation. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 1 to 13 years.

(p) This category includes one open-ended private fund which seeks 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.

(q) 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 class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 1 to 12 years.

(r) 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 classes. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next 1 to 14 years.

As of December 31, 2019 and 2018, investments of $967,000,000 and $893,000,000, 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):

	2019	2018
Insurance premiums	$ 41,528	$ 40,873
Royalties	25,162	25,044
Publication advertising	17,747	14,223
Grants	12,777	9,014
Program fees	2,523	1,627
Other	14,565	13,994
Accounts receivable, gross	114,302	104,775
Less: Allowance for doubtful accounts	(466)	(955)
Accounts receivable, net	$ 113,836	$ 103,820

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, 2019 and 2018 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):

	2019	2018
Land	$ 53,023	$ 53,023
Buildings and improvements	349,720	348,417
Furniture and equipment	108,505	102,074
Computer software	292,469	264,788
Leasehold improvements	14,572	13,605
	818,289	781,907
Less: Accumulated depreciation and amortization	(456,217)	(400,214)
Property and equipment before ROU assets	362,072	381,693
ROU assets	74,250	-
Less: Accumulated amortizaton	(14,843)	-
ROU assets, net	59,407	-
Property and equipment, net	$ 421,479	$ 381,693

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 $59,407,000, and lease liabilities were $63,269,000 at December 31, 2019.

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, allowed under ASC 842, 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, 2019 were (in thousands):

2020	$	18,073
2021		17,004
2022		10,820
2023		7,938
2024		5,820
Thereafter		8,783
Total undiscounted cash flows		68,438
Less: Net present value adjustment		(5,169)
Total	$	63,269

		Year ending December 31, 2019
Lease Cost and Supplemental Information (in thousands):		
Operating lease cost	$	16,148
Variable lease payments (1)		5,054
Short-term lease cost (2)		1,154
Total lease cost	$	22,356
Weighted-average remaining lease term - operating leases		4.7 years
Weighted-average discount rate - operating leases		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

Total rent expense incurred under operating leases totaled $26,952,000 in 2018. Future minimum lease payments, exclusive of additional operating costs, at December 31, 2018 were (in thousands):

2019	$	17,889
2020		16,907
2021		15,900
2022		9,506
2023		6,550
Thereafter		13,183
Total	$	79,935

NOTE 11 - NOTES PAYABLE

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

	2019	2018
Fixed rate notes, maturing May 2031, net of discount of $647 in 2019 and $684 in 2018 (a)	$ 124,353	$ 124,316
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	$ 199,353	$ 199,316

Interest expense for the years ended December 31, 2019 and 2018 totaled $10,914,000 and $10,727,000, 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 $182,856,000 and $166,193,000 as of December 31, 2019 and 2018, 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 1.65% and 2.50% at December 31, 2019 and 2018, 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, 2019 and 2018, the notes had an interest rate of 1.72% and 1.81%, 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, 2019 and 2018. The Foundation's letter of credit expires October 21, 2020.

Revolving Credit Facility

On July 17, 2009, AARP, Inc. entered into an unsecured revolving credit facility with a maximum principal amount of $50,000,000 from a commercial bank. Borrowings under the credit facility can take the form of a base rate loan, money market loan or a LIBOR rate loan. The base rate loan is charged interest at a commercial floating rate which is the higher of (a) the 30-day LIBOR Rate plus 2.50% 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 2019 and 2018, there were two borrowings each year from the credit facility, which were fully repaid by December 31, 2019 and 2018.

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, 2019 and 2018 totaled $152,900,000 and $148,600,000, 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, 2019 and 2018, follow (in thousands):

	2019	2018
Current:		
Federal income tax (benefit)	$ 2,856	$ (769)
State income tax	1,182	110
Current income tax expense	4,038	(659)
Deferred:		
Federal income tax	1,382	1,159
State income tax	546	590
Deferred income tax expense	1,928	1,749
Total income tax expense	$ 5,966	$ 1,090

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, 2019 and 2018, were as follows (in thousands):

	2019	2018
Deferred income tax assets:		
Employee benefits	$ 2,792	$ 3,426
Accrued expenses	925	2,367
Deferred revenue	5,130	5,777
Depreciation	117	-
Lease liability	3,915	-
Start-up expenses	322	159
Capital loss carryforward	33	34
Total deferred income tax assets	13,234	11,763
Deferred income tax liability:		
ROU asset	(3,669)	-
Depreciation	-	(270)
Property tax expense	(14)	(14)
Total deferred income tax liability	(3,683)	(284)
Net deferred income tax asset	$ 9,551	$ 11,479

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2019 and 2018 totaled $3,903,000 and $4,455,000, 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.

In 2019 and 2018, discretionary employer contributions to the Pension Plan totaled $94,800,000 and $46,150,000, respectively. AARP was not required to make annual minimum contributions in 2019 or 2018. AARP does not anticipate making a discretionary contribution to the Pension Plan in 2020.

The components of net periodic pension benefit cost for the years ended December 31, 2019 and 2018 were as follows (in thousands):

	2019	2018
Service cost	$ 38,822	$ 42,814
Interest cost	52,062	47,212
Expected return on plan assets	(64,502)	(61,881)
Amortization of actuarial loss	15,651	27,355
	$ 42,033	$ 55,500

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):

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (1,164,582)	$ (1,214,617)
Service cost	(38,822)	(42,814)
Interest cost	(52,062)	(47,212)
Actuarial (loss) gain	(181,519)	113,001
Benefits paid	29,385	27,060
Benefit obligation at end of year	(1,407,600)	(1,164,582)
Change in plan assets:		
Fair value at beginning of year	914,660	961,915
Actual return (loss) on plan assets	196,524	(66,345)
Contribution to the plan	94,800	46,150
Benefits paid	(29,385)	(27,060)
Fair value at end of year	1,176,599	914,660
Accrued pension liability	$ (231,001)	$ (249,922)

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2019 and 2018 measurement dates were as follows:

	2019	2018
Discount rate	3.54%	4.35%
Future salary increases	4.00%	4.00%

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2019 and 2018 measurement dates were as follows:

	2019	2018
Discount rate	4.35%	3.76%
Expected long-term rate of return on plan assets	7.25%	7.50%
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):

2020	$ 34,794
2021	37,758
2022	40,764
2023	43,823
2024	47,132
Years 2025-2029	288,383

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2019 and 2018, follow (in thousands):

	2019	2018
Net actuarial loss	$ 262,494	$ 228,647

Estimated amount to be amortized into net periodic benefit cost in 2020 is $26,262,000 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, 2019 and 2018:

	2019	2018
Asset categories:		
Equity securities	60%	58%
Debt securities	34	36
Alternatives	4	5
Cash equivalents	2	1
	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, 2019 and 2018, the fair value of AARP's Pension Plan assets, by asset category within the fair value hierarchy consisted of the following (in thousands):

	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			

	2018 Total	Level 1	Level 2	Net Asset Value
Investments				
Equity securities and funds:				
U.S. large-mid cap	$ 225,037	$ 88,606	$ -	$ 136,431
U.S. small cap	54,440	54,440	-	-
Global and international	217,165	188,066	-	29,099
Emerging markets	31,552	-	-	31,552
Fixed income securities and funds:				
Global and international	104,020	52,555	516	50,949
Mortgage and asset-backed	45,553	-	553	45,000
U.S. corporate and investment grade	85,761	59,393	155	26,213
Emerging markets	16,056	12,473	-	3,583
U.S. government and treasury securities	15,518	-	-	15,518
Real return	407	-	-	407
Short-term	13,393	-	-	13,393
High-yield	15,261	11,318	-	3,943
Municipal	1,302	-	-	1,302
Commingled real asset funds	45,173	-	-	45,173
Balanced fund	33,377	-	-	33,377
Total	904,015	$ 466,851	$ 1,224	$ 435,940
Cash and cash equivalents	10,645			
Total investments	$ 914,660			

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, 2019 and 2018 was as follows (in thousands):

	2019 NAV	Unfunded Commitments	2018 NAV	Redemption Frequency
Equity securities and funds:				
U.S. large-mid cap (a)	$ 207,274	n/a	$ 136,431	daily
Global and international fund (b)	395,606	n/a	29,099	Daily, 3 times/month, semi-monthly, monthly
Emerging markets funds (c)	3,569	n/a	31,552	3 times/month
Fixed income securities and funds:				
Various sector funds (d)	114,806	n/a	113,038	daily
Global and international fund (e)	41,726	n/a	47,270	monthly
Balanced fund (f)	10,173	n/a	33,377	daily
Commingled real asset funds (g)	-	-	45,173	daily
Commingled real estate funds (h)	40,176	42,500	-	quarterly
Private equity fund - U.S. (i)	2,596	37,291	-	n/a
Private equity fund - Global (j)	749	9,324	-	n/a
Private real asset funds (k)	-	13,000	-	Quarterly
	$ 816,675	$ 102,115	$ 435,940	

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

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

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

(e) This category is invested in one actively managed fund. The fund seeks to provide returns in excess of a well-established international, fixed income index.

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

(g) During 2018, this category was comprised of equity funds and a fixed income fund. The funds provided inflation protections potential, added diversifications outside of equities and fixed income investments, and finally, additional sources of absolute return and income. During periods of stock market performance, the funds will probably underperform. Additionally, macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.

(h) This category is invested in a commingled fund which invests 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 fund has both relative and real return objectives.

(i) 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 class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 5-10 years.

(j) This category is invested in a private equity fund which makes global investments to achieve diversification, with a focus on investing primarily in Europe and North America. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next 4 to 9 years.

(k) This category includes one open-ended private fund which seeks 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. As of December 31, 2019, the Plan had no investment in 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, 2019 and 2018 were as follows (in thousands):

	2019	2018
Service cost	$ 6,667	$ 7,597
Interest cost	7,258	6,920
Amortization of prior service credit	(66)	(654)
Amortization of actuarial loss	951	3,065
	$ 14,810	$ 16,928

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):

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (169,363)	$ (174,975)
Service cost	(6,667)	(7,597)
Interest cost	(7,258)	(6,920)
Actuarial gain	28,247	17,103
Participant contributions	(755)	(697)
Benefits paid, net subsidy	3,960	3,723
Benefit obligation at end of year	(151,836)	(169,363)
Change in plan assets:		
Fair value at beginning of year	-	-
Employer contribution	3,205	3,026
Plan participants’ contributions	755	697
Benefits paid	(3,960)	(3,723)
Fair value at end of year	-	-
Accrued postretirement health benefits	$ (151,836)	$ (169,363)

As of December 31, 2019 and 2018, the weighted average discount rates used in the actuarial valuation were as follows:

	2019	2018
End of year benefit obligation	3.55%	4.32%
Net periodic benefit cost	4.32%	3.75%

For measurement purposes, the health care cost trend rate was 5.75% for 2019 and 6.00% for 2018 (the rate is assumed to decrease gradually to 5% in 2022 and remain level thereafter).

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

2020	$ 4,829
2021	5,151
2022	5,455
2023	5,763
2024	6,172
Years 2025-2029	37,715

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2019 and 2018 were as follows (in thousands):

	2019	2018
Net actuarial loss	$ 5,813	$ 35,012
Prior service credit	-	(66)
	$ 5,813	$ 34,946

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.

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, 2018 would have resulted in a $40,772,000 increase or a $29,240,000 decrease in the accumulated postretirement benefit obligation, and a $4,749,000 increase or a $3,259,000 decrease in the 2018 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, 2019 and 2018, expenses for the AARP Welfare Plan for current healthcare benefits totaled $28,014,000 and $23,813,000, respectively. As of December 31, 2019 and 2018, AARP had a liability related to these benefits of $3,070,000 and $2,908,000, 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, 2019 and 2018, AARP employer contributions to this plan totaled $11,997,000 and $11,725,000, 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, 2019 and 2018 were available to fund the following (in thousands):

	2019	2018
Debt retirement sinking fund (Note 11)	$ 152,900	$ 148,600
Foundation operating funds	501,523	365,053
LCE operating funds	5,635	4,724
Board designated net assets	$ 660,058	$ 518,377

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.

NOTE 19 - SUBSEQUENT EVENTS

AARP evaluated its December 31, 2019 consolidated financial statements for subsequent events through March 17, 2020, the date the consolidated financial statements were available to be issued. AARP is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.