# Consolidated Financial Statements and Report of Independent Certified Public

## AARP

December 31, 2023 and 2022

**Contents**

GRANT THORNTON LLP
445 Broad Hollow Road, Suite 300
Melville, NY 11747

D +1 631 249 6001
F +1 631 249 6144

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
AARP

**Opinion**
We have audited the consolidated financial statements of AARP and Affiliates (collectively, "AARP"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AARP as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**
We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AARP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AARP's ability to continue as a going concern for one year after the date the financial statements are issued.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AARP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Melville, New York
March 18, 2024

**AARP**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**As of December 31, 2023 and 2022**
**(in thousands)**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 342,349 | $ 322,910 |
| Accounts receivable, net (Note 8) | 111,740 | 115,348 |
| Prepaid expenses and other assets (Note 12) | 54,215 | 60,360 |
| Prepaid pension asset (Note 13) | 167,609 | 117,272 |
| Investments (Note 7) | 4,742,506 | 4,384,592 |
| Property and equipment, net (Notes 9 and 10) | 314,180 | 347,532 |
| Total assets | $ 5,732,599 | $ 5,348,014 |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 218,967 | $ 216,000 |
| Insurance premiums payable (Notes 6 and 7) | 1,201,771 | 1,175,118 |
| Deferred revenue and other liabilities (Notes 3 and 10) | 77,529 | 75,833 |
| Deferred membership dues (Note 3) | 489,755 | 487,495 |
| Accrued postretirement health benefits (Note 14) | 106,026 | 101,090 |
| Notes payable (Note 11) | 199,529 | 199,480 |
| Total liabilities | 2,293,577 | 2,255,016 |
| Contingencies (Note 18) | | |
| **NET ASSETS** | | |
| Without donor restrictions: | | |
| Undesignated | 2,625,457 | 2,315,992 |
| Board designated (Note 17) | 805,518 | 767,217 |
| Total net assets without donor restrictions | 3,430,975 | 3,083,209 |
| With donor restrictions | 8,047 | 9,789 |
| Total net assets | 3,439,022 | 3,092,998 |
| Total liabilities and net assets | $ 5,732,599 | $ 5,348,014 |

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

## AARP

## CONSOLIDATED STATEMENT OF ACTIVITIES

### For the year ended December 31, 2023
### (in thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues (Note 3)** | | | |
| Membership dues | $ 289,236 | $ - | $ 289,236 |
| Royalties (Note 6) | 1,134,321 | - | 1,134,321 |
| Publications advertising | 140,906 | - | 140,906 |
| Grant revenue | 109,953 | - | 109,953 |
| Program income | 61,667 | - | 61,667 |
| Contributions | 104,131 | 7,071 | 111,202 |
| Other | 6,513 | - | 6,513 |
| Net assets released from restrictions | 8,813 | (8,813) | - |
| Total operating revenues | 1,855,540 | (1,742) | 1,853,798 |
| **Operating expenses (Note 5)** | | | |
| Program services: | | | |
| Community engagement and outreach | 495,488 | - | 495,488 |
| Publications and communications | 446,369 | - | 446,369 |
| Membership engagement | 261,976 | - | 261,976 |
| Training and education programs | 162,041 | - | 162,041 |
| Total program services | 1,365,874 | - | 1,365,874 |
| Supporting activities: | | | |
| Membership development | 278,216 | - | 278,216 |
| Management and general | 311,660 | - | 311,660 |
| Total supporting activities | 589,876 | - | 589,876 |
| Total operating expenses | 1,955,750 | - | 1,955,750 |
| Change in net assets from operating activities | (100,210) | (1,742) | (101,952) |
| **Non-operating activities** | | | |
| Investment gain | 420,918 | - | 420,918 |
| Income taxes (Note 12) | (2,814) | - | (2,814) |
| Other components of net periodic benefit cost (Notes 13 and 14) | 25,069 | - | 25,069 |
| Pension and postretirement activity other than net periodic benefit cost (Notes 13 and 14) | 4,803 | - | 4,803 |
| **CHANGE IN NET ASSETS** | 347,766 | (1,742) | 346,024 |
| **Net assets, beginning of year** | 3,083,209 | 9,789 | 3,092,998 |
| **Net assets, end of year** | $ 3,430,975 | $ 8,047 | $ 3,439,022 |

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

## AARP

## CONSOLIDATED STATEMENT OF ACTIVITIES

### For the year ended December 31, 2022
### (in thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating revenues (Note 3)** | | | |
| Membership dues | $ 290,864 | $ - | $ 290,864 |
| Royalties (Note 6) | 1,109,917 | - | 1,109,917 |
| Publications advertising | 151,819 | - | 151,819 |
| Grant revenue | 115,027 | - | 115,027 |
| Program income | 65,356 | - | 65,356 |
| Contributions | 94,798 | 12,023 | 106,821 |
| Other | 48,567 | - | 48,567 |
| Net assets released from restrictions | 11,876 | (11,876) | - |
| Total operating revenues | 1,888,224 | 147 | 1,888,371 |
| **Operating expenses (Note 5)** | | | |
| Program services: | | | |
| Community engagement and outreach | 527,638 | - | 527,638 |
| Publications and communications | 434,766 | - | 434,766 |
| Membership engagement | 249,848 | - | 249,848 |
| Training and education programs | 154,033 | - | 154,033 |
| Total program services | 1,366,285 | - | 1,366,285 |
| Supporting activities: | | | |
| Membership development | 267,840 | - | 267,840 |
| Management and general | 293,374 | - | 293,374 |
| Total supporting activities | 561,214 | - | 561,214 |
| Total operating expenses | 1,927,499 | - | 1,927,499 |
| Change in net assets from operating activities | (39,275) | 147 | (39,128) |
| **Non-operating activities** | | | |
| Investment loss | (252,527) | - | (252,527) |
| Income taxes (Note 12) | (6,611) | - | (6,611) |
| Other components of net periodic benefit cost (Notes 13 and 14) | 4,566 | - | 4,566 |
| Pension and postretirement activity other than net periodic benefit cost (Notes 13 and 14) | 433,652 | - | 433,652 |
| **CHANGE IN NET ASSETS** | 139,805 | 147 | 139,952 |
| **Net assets, beginning of year** | 2,943,404 | 9,642 | 2,953,046 |
| **Net assets, end of year** | $ 3,083,209 | $ 9,789 | $ 3,092,998 |

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

**AARP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2023 and 2022**
**(in thousands)**

| | 2023 | 2022 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 346,024 | $ 139,952 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 62,840 | 52,805 |
| Change in allowance for potential credit losses | 131 | 1,540 |
| Changes other than net periodic benefit cost | (4,803) | (433,652) |
| Net realized and unrealized (gain) loss on investments | (354,843) | 284,420 |
| Deferred income taxes | (2,714) | 661 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,477 | (8,784) |
| Prepaid expenses and other assets | 8,788 | (15,116) |
| Accounts payable and accrued expenses | 2,967 | 701 |
| Insurance premiums payable | 26,653 | 1,082 |
| Deferred revenue and other liabilities | 2,667 | (2,738) |
| Deferred membership dues | 2,260 | (11,470) |
| Prepaid pension asset/accrued pension liability | (39,480) | 1,728 |
| Accrued postretirement health benefits | (1,118) | 6,686 |
| Net cash provided by operating activities | 52,849 | 17,815 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (30,339) | (24,649) |
| Proceeds from sale and maturities of investments | 3,058,382 | 4,831,721 |
| Purchases of investments | (3,061,453) | (4,887,147) |
| Net cash used in investing activities | (33,410) | (80,075) |
| Net increase (decrease) in cash and cash equivalents | 19,439 | (62,260) |
| **Cash and cash equivalents, beginning of year** | 322,910 | 385,170 |
| **Cash and cash equivalents, end of year** | $ 342,349 | $ 322,910 |
| **Supplemental disclosures:** | | |
| Cash paid for interest | $ 12,718 | $ 10,624 |
| Cash paid for income taxes | $ 7,568 | $ 4,740 |
| Operating lease liabilities arising from obtaining right of use assets | $ 15,431 | $ 7,385 |

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. A pilot center, operated by a third-party management company, opened in 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 (the "Foundation") was organized in 1961 as a District of Columbia not-for-profit corporation. The Foundation's mission is to create and advance effective solutions to reduce poverty for and with older adults. The 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, the Foundation is a public charity as defined in Section 509(a)(1) of the IRC. The Foundation receives funding principally from the federal government, AARP, Inc., foundations, corporations, and individuals. The 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 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.

### *Older Adults Technology Services*

In January 2021, Older Adults Technology 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 through contributions from AARP, Inc. and donations from corporations, foundations, individuals, and other grants. OATS'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 800 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:

<u>Net Assets Without Donor Restriction</u>

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).

<u>Net Assets With Donor Restriction</u>

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 benefit cost, pension and postretirement activity 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, 2023 and 2022, $207,104,000 and $203,929,000, 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 its allowance for credit losses 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.

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, private real estate funds and private credit 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 2023 and 2022, these estimated fair values represented approximately 40% and 41%, 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, hedge and credit 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 $41,580,000 and $36,839,000 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, advertising expense totaled $388,873,000 and $399,603,000, respectively, and no costs were capitalized.

### *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, and 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):

| | 2023 | 2022 |
|---|---|---|
| Membership dues (by term): | | |
| One year | $ 131,534 | $ 129,757 |
| Two and three years | 67,510 | 71,365 |
| Five years and greater | 90,192 | 89,742 |
| | $ 289,236 | $ 290,864 |

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, 2023 and 2022, AARP recognized revenue of $224,523,000 and $229,645,000, respectively, from amounts that were included in deferred membership dues at the beginning of the year.

At December 31, 2023, deferred membership dues totaled $489,755,000. 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, 2022, deferred membership dues totaled $487,495,000. Of that amount, 46%, 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):

| | 2023 | 2022 |
|---|---|---|
| Royalty revenue (by product): | | |
| Health products and services | $ 905,694 | $ 861,588 |
| Financial products and services | 201,180 | 223,507 |
| Lifestyle products and services | 27,447 | 24,822 |
| | $ 1,134,321 | $ 1,109,917 |

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 $17,000 for each of the years ended December 31, 2023 and 2022. AARP recognized $17,000 and $595,000 in royalty revenue during 2023 and 2022, respectively, from amounts that were included in deferred revenue and other liabilities at December 31, 2022 and 2021.

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):

| | 2023 | 2022 |
|---|---|---|
| Publications advertising (by type): | | |
| Print media | $ 90,929 | $ 104,900 |
| Digital media | 49,977 | 46,919 |
| | $ 140,906 | $ 151,819 |

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.

Grants receivables, which are reported as accounts receivable, net, 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, 2023, grants receivable totaled $13,877,000, all of which was due to be collected within one year. As of December 31, 2022, grants receivable totaled $15,525,000, all of which was due to be collected within one year.

AARP's outstanding conditional contributions totaled $65,784,000 and $70,400,000, as of December 31, 2023 and 2022, respectively, which will be recognized as revenue as conditions are met. These amounts relate primarily to grants from governmental entities, which will be recognized as qualifying expenses are incurred.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation, LCE, OATS and WOL, while advocacy contributions are received by AARP, Inc. Contributions also include in-kind contributed professional services with a fair value totaling $29,167,000 and $23,105,000 for the years ended December 31, 2023 and 2022, 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 2024. 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 2024. 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):

| | 2023 | 2022 |
|---|---|---|
| Program income (by type): | | |
| Consulting services | $ 54,896 | $ 59,621 |
| Driver safety | 6,771 | 5,735 |
| | $ 61,667 | $ 65,356 |

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, 2023 and 2022, 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):

| | 2023 | 2022 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 342,349 | $ 322,910 |
| Accounts receivable, net | 111,740 | 115,348 |
| Investments: | | |
| Level 1 | 463,815 | 379,375 |
| Level 2 | 439,082 | 208,628 |
| Cash and cash equivalents | 26,147 | 34,169 |
| Invesment redemption receivables | - | 247,500 |
| Institutional mutual funds | 1,899,873 | 1,698,313 |
| Less: Board designated funds | (805,518) | (767,217) |
| Less: Net assets with donor restrictions | (8,047) | (9,789) |
| Total financial assets available within one year | 2,469,441 | 2,229,237 |
| Liquidity resources: | | |
| Revolving credit facility | 50,000 | 50,000 |
| Total financial assets and liquidity resources available within one year | $ 2,519,441 | $ 2,279,237 |

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, 2023 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 | $ 199,376 | $ 63,035 | $ 87,193 | $ 28,093 | $ 12,024 | $ 124,698 | $ 514,419 |
| Professional services and research | 78,368 | 51,170 | 52,692 | 8,515 | 4,421 | 46,419 | 241,585 |
| Advertising and marketing | 57,112 | 133,939 | 38,939 | 4,918 | 139,255 | 14,710 | 388,873 |
| Technology | 38,835 | 30,769 | 45,992 | 13,371 | 11,029 | 28,064 | 168,060 |
| Printing and postage | 19,713 | 139,165 | 20,360 | 3,181 | 108,416 | 21,421 | 312,256 |
| Grants, donations, and volunteer expenses | 39,825 | - | - | 94,220 | - | - | 134,045 |
| Occupancy and office expense | 32,116 | 19,224 | 14,014 | 6,624 | 2,787 | 46,073 | 120,838 |
| Other | 30,143 | 9,067 | 2,786 | 3,119 | 284 | 30,275 | 75,674 |
| | $ 495,488 | $ 446,369 | $ 261,976 | $ 162,041 | $ 278,216 | $ 311,660 | $ 1,955,750 |

Expenses by natural classification for the year ended December 31, 2022 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 | $ 201,365 | $ 51,365 | $ 84,832 | $ 27,578 | $ 10,465 | $ 123,662 | $ 499,267 |
| Professional services and research | 80,036 | 56,733 | 53,557 | 8,970 | 4,555 | 42,164 | 246,015 |
| Advertising and marketing | 80,392 | 141,111 | 36,968 | 5,284 | 122,768 | 13,080 | 399,603 |
| Technology | 41,352 | 28,359 | 36,701 | 12,551 | 6,981 | 28,233 | 154,177 |
| Printing and postage | 27,549 | 131,585 | 19,715 | 2,796 | 120,969 | 19,758 | 322,372 |
| Grants, donations, and volunteer expenses | 40,839 | - | - | 89,132 | - | - | 129,971 |
| Occupancy and office expense | 33,782 | 20,213 | 15,944 | 6,025 | 1,891 | 39,526 | 117,381 |
| Other | 22,323 | 5,400 | 2,131 | 1,697 | 211 | 26,951 | 58,713 |
| | $ 527,638 | $ 434,766 | $ 249,848 | $ 154,033 | $ 267,840 | $ 293,374 | $ 1,927,499 |

## 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 63% and 61% of total royalties from the Plan for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the Plan processed $12.1 billion and $11.9 billion of premium payments from member participants, respectively.

Premiums collected from insured members are subsequently remitted to the third-party insurance carriers and are recorded as a liability, insurance premiums payable, in the accompanying consolidated statements of financial position. For the years ended December 31, 2023 and 2022, the Plan invested certain funds that generated net investment income of $106,817,000 and (loss) of $(73,177,000), respectively, which are included in investment gain (loss) in the accompanying consolidated statements of activities.

At December 31, 2023 and 2022, insurance premiums payable (in thousands) were comprised of the following:

| | 2023 | 2022 |
|---|---|---|
| Premiums payable to the insurance underwriters | $ 970,802 | $ 941,124 |
| Payments received in advance | 199,403 | 202,899 |
| Unprocessed and partial payments | 31,566 | 31,095 |
| Total insurance premiums payable | $ 1,201,771 | $ 1,175,118 |

## NOTE 7 - INVESTMENTS

Investments as of December 31, 2023, 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 | $ 1,027,043 | $ 851 | $ - | $ 1,026,192 |
| U.S. small cap | 35,410 | 35,410 | - | - |
| Emerging markets | 5,553 | 86 | - | 5,467 |
| U.S. large-mid cap | 473,553 | 21,990 | - | 451,563 |
| Fixed income securities and funds: | | | | |
| U.S. corporate and investment grade | 298,405 | 190,857 | 99,629 | 7,919 |
| Global and international | 295,816 | 166 | 21,114 | 274,536 |
| U.S. government and treasury securities | 212,950 | 212,950 | - | - |
| Mortgage and asset-backed | 301,715 | - | 301,715 | - |
| International government | 6,574 | - | 6,574 | - |
| U.S. fixed income | 135,327 | 1,131 | - | 134,196 |
| High-yield | 117 | 117 | - | - |
| Municipal | 10,050 | - | 10,050 | - |
| Short-term | 257 | 257 | - | - |
| Hedge funds: | | | | |
| Multi-strategy | 240,006 | - | - | 240,006 |
| Equity long/short | 150,019 | - | - | 150,019 |
| Equity market neutral | 54,501 | - | - | 54,501 |
| Event driven/credit | 155,163 | - | - | 155,163 |
| Global macro | 122,680 | - | - | 122,680 |
| Private equity funds: | | | | |
| Private equity funds - global | 191,582 | - | - | 191,582 |
| Private equity funds - U.S. | 482,127 | - | - | 482,127 |
| Real assets and commodity funds: | | | | |
| Commingled real estate funds - U.S. | 276,903 | - | - | 276,903 |
| Private real estate funds - U.S. | 72,432 | - | - | 72,432 |
| Infrastructure | 93,048 | - | - | 93,048 |
| Private credit funds: | 75,128 | - | - | 75,128 |
| Total | 4,716,359 | $ 463,815 | $ 439,082 | $ 3,813,462 |
| Cash and cash equivalents held for investment | 26,147 | | | |
| Total investments | $ 4,742,506 | | | |

Investments as of December 31, 2022, 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 | $ 929,537 | $ 6,043 | $ - | $ 923,494 |
| U.S. small cap | 29,646 | 29,646 | - | - |
| Emerging markets | 5,690 | 73 | - | 5,617 |
| U.S. large-mid cap | 416,049 | 22,719 | - | 393,330 |
| Fixed income securities and funds: | | | | |
| U.S. corporate and investment grade | 246,956 | 200,190 | 40,307 | 6,459 |
| Global and international | 255,753 | 160 | 11,052 | 244,541 |
| U.S. government and treasury securities | 116,236 | 116,236 | - | - |
| Mortgage and asset-backed | 145,697 | - | 145,697 | - |
| International government | 4,956 | - | 4,956 | - |
| U.S. fixed income | 128,714 | 3,842 | - | 124,872 |
| High-yield | 214 | 214 | - | - |
| Municipal | 6,616 | - | 6,616 | - |
| Short-term | 252 | 252 | - | - |
| Hedge funds: | | | | |
| Multi-strategy | 218,538 | - | - | 218,538 |
| Equity long/short | 151,588 | - | - | 151,588 |
| Equity market neutral | 46,726 | - | - | 46,726 |
| Event driven/credit | 144,325 | - | - | 144,325 |
| Global macro | 112,463 | - | - | 112,463 |
| Private equity funds: | | | | |
| Private equity funds - global | 171,119 | - | - | 171,119 |
| Private equity funds - U.S. | 464,185 | - | - | 464,185 |
| Real assets and commodity funds: | | | | |
| Commingled real estate funds - U.S. | 322,742 | - | - | 322,742 |
| Private real estate funds - U.S. | 59,753 | - | - | 59,753 |
| Infrastructure | 81,855 | - | - | 81,855 |
| Private credit funds | 43,313 | - | - | 43,313 |
| Total | 4,102,923 | $ 379,375 | $ 208,628 | $ 3,514,920 |
| Cash and cash equivalents held for investment | 34,169 | | | |
| Redemption receivables | 247,500 | | | |
| Total investments | $ 4,384,592 | | | |

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):

| | 2023 NAV | Unfunded Commitments | 2022 NAV | Redemption Frequency | Redemption Notice Period | Redemption Restrictions |
|---|---|---|---|---|---|---|
| Institutional mutual funds: | | | | | | |
| Global and international equity (a) | $ 1,026,192 | N/A | $ 923,494 | Daily, weekly, semi-monthly | 1-30 days | N/A |
| Emerging markets equity (b) | 5,467 | N/A | 5,617 | Daily | 1 day | N/A |
| U.S. large-mid cap equity (c) | 451,563 | N/A | 393,330 | Daily | None or 2 days | N/A |
| U.S. corporate and investment grade (d) | 7,919 | N/A | 6,459 | Daily | None | N/A |
| Global and international fixed income (e) | 274,536 | N/A | 244,541 | Monthly | 15 days | N/A |
| U.S. fixed income (f) | 134,196 | N/A | 124,872 | Daily | None | N/A |
| Hedge funds: | | | | | | |
| Multi-strategy (g) | 240,006 | - | 218,538 | Monthly, quarterly, bi-annually, annually | 45 - 90 days | Redemption % |
| Equity long/short (h) | 150,019 | N/A | 151,588 | Monthly, quarterly | 30 - 60 days | Redemption % |
| Equity market neutral (i) | 54,501 | N/A | 46,726 | Monthly | 90 days | Redemption % |
| Event driven/credit (j) | 155,163 | N/A | 144,325 | Quarterly | 60 days | Redemption % |
| Global macro (k) | 122,680 | N/A | 112,463 | Monthly, quarterly | 10 - 90 days | Redemption % |
| Private equity funds: | | | | | | |
| Private equity funds - Global (l) | 191,582 | 195,096 | 171,119 | N/A | N/A | N/A |
| Private equity funds - U.S. (m) | 482,127 | 198,416 | 464,185 | N/A | N/A | N/A |
| Real assets and commodity funds: | | | | | | |
| Commingled real estate funds - U.S. (n) | 276,903 | - | 322,742 | Monthly, quarterly | 5 - 90 days | None |
| Private real estate funds - U.S. (o) | 72,432 | 120,580 | 59,753 | N/A | N/A | N/A |
| Infrastructure (p) | 93,048 | 18,352 | 81,855 | Quarterly, annually | 90 - 180 days | None |
| Private credit funds (q) | 75,128 | 85,015 | 43,313 | N/A | N/A | N/A |
| | $ 3,813,462 | $ 617,459 | $ 3,514,920 | | | |

(a) 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.

(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 invested in two institutional mutual funds. The funds employ a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.

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

(e) This category includes one institutional mutual fund that employs an active investment approach seeking to outperform a blended global fund.

(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 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. In addition to lock-up periods, some investments include "gates" which limit the percentage of AARP's investments that can be redeemed at one time. Redemption percentages begin at 25% with full redemption over four quarters.

(h) 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. Some investments include "gates" which limit the percentage of

AARP's investments that can be redeemed at one time. Redemption percentages begin at 25% with full redemption over four quarters.

(i) 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. Some investments include "gates" which limit the percentage of AARP's investments that can be redeemed at one time, if the total redemption request of all investors exceeds 20% of the fund balance.

(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. Some investments include "gates" which limit the percentage of AARP's investments that can be redeemed at one time. Redemption percentages are 50% per redemption period.

(k) 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. Some investments include "gates" which limit the percentage of AARP's investments that can be redeemed at one time. Redemption percentages begin at 25% with full redemption over four quarters.

(l) 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.

(m) 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.

(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 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.

(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 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.

(p) 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. Approximately 7% of the investments in this category have no redemption rights as of December 31, 2023 and 2022, respectively.

(q) This category includes investments in drawdown vehicles invested in a diversified portfolio of private debt including stressed and distressed debt. 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, 2023 and 2022, investments of $1,077,605,000 and $981,877,000, 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):

| | 2023 | 2022 |
|---|---|---|
| Insurance premiums | $ 35,986 | $ 39,253 |
| Royalties | 24,052 | 23,163 |
| Publication advertising | 19,439 | 19,882 |
| Grants | 13,877 | 15,525 |
| Program fees | 2,716 | 3,253 |
| Contributions | 2,087 | 1,404 |
| Other | 15,728 | 14,882 |
| Accounts receivable, gross | 113,885 | 117,362 |
| Less: Allowance for potential credit losses | (2,145) | (2,014) |
| Accounts receivable, net | $ 111,740 | $ 115,348 |

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 potential credit losses as of the years ended December 31, 2023 and 2022 is related primarily 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):

| | 2023 | 2022 |
|---|---|---|
| Land | $ 46,376 | $ 46,376 |
| Buildings and improvements | 325,523 | 325,828 |
| Furniture and equipment | 106,352 | 104,908 |
| Computer software | 260,933 | 268,789 |
| Leasehold improvements | 20,049 | 19,585 |
| | 759,233 | 765,486 |
| Less: Accumulated depreciation and amortization | (508,401) | (484,188) |
| Property and equipment before ROU assets | 250,832 | 281,298 |
| ROU assets, net | 63,348 | 66,234 |
| Property and equipment, net | $ 314,180 | $ 347,532 |

## 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 $63,348,000 and $66,234,000, and lease liabilities were $71,284,000 and $70,313,000 at December 31, 2023 and 2022, 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. None of these variable payments are included in the measurement of the lease obligation.

***Maturity Analysis***

Maturities of lessee arrangements, excluding additional operating costs, at December 31, 2023 are (in thousands):

| | | |
|---|---|---|
| 2024 | $ | 15,847 |
| 2025 | | 14,283 |
| 2026 | | 11,783 |
| 2027 | | 8,586 |
| 2028 | | 6,688 |
| Thereafter | | 20,258 |
| Total undiscounted cash flows | | 77,445 |
| Less: Net present value adjustment | | (6,161) |
| Total | $ | 71,284 |

Lease cost and supplemental information for the years ended December 31, 2023 and 2022 are as follows (in thousands):

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Operating lease cost | $ | 15,906 | $ | 15,868 |
| Variable lease payments [1] | | 4,217 | | 3,683 |
| Short-term lease cost [2] | | 462 | | 268 |
| Total lease cost | $ | 20,585 | $ | 19,819 |
| Weighted-average remaining lease term - operating leases | | 6.7 years | | 7.9 years |
| Weighted-average discount rate - operating leases | | 2.70% | | 2.40% |

(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

| | | | | |
|---|---|---|---|---|
| Operating lease liabilities arising from obtaining ROU assets [3] | $ | 15,431 | $ | 7,385 |
| Operating cash flows from operating leases [4] | $ | 16,521 | $ | 16,315 |

(3) Represents non-cash activity, thus excluded from consolidated statements of cash flows
(4) Represents cash paid for amounts included in the measurement of lease liabilities

## NOTE 11 - NOTES PAYABLE

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

| | 2023 | 2022 |
|---|---|---|
| Fixed rate notes, maturing May 2031, net of discount of $471 in 2023 and $520 in 2022 (a) | $ 124,529 | $ 124,480 |
| 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 | $ 199,529 | $ 199,480 |

Interest expense for the years ended December 31, 2023 and 2022 totaled $12,829,000 and $10,624,000, 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.

### *(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 5.4% and 4.5% at December 31, 2023 and 2022, 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, 2023 and 2022, the notes had an interest rate of 3.82% and 3.71%, 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, 2023 and 2022. The Foundation’s letter of credit expires October 21, 2025.

### *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, CBFR or a SOFR rate loan. 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 credit facility expires on July 15, 2024. There were no borrowings against the credit facility in 2023 or 2022.

### *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, 2023 and 2022 totaled $170,100,000 and $165,800,000, 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, 2023 and 2022, follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Current: | | |
| Federal income tax | $ 3,936 | $ 4,211 |
| State income tax | 1,591 | 1,740 |
| Current income tax expense | 5,527 | 5,951 |
| Deferred: | | |
| Federal income tax | (1,902) | 600 |
| State income tax | (811) | 60 |
| Deferred income tax expense | (2,713) | 660 |
| Total income tax expense | $ 2,814 | $ 6,611 |

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, 2023 and 2022, were as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Deferred income tax assets: | | |
| Lease liability | $ 9,880 | $ 10,847 |
| Employee benefits | 1,993 | 1,669 |
| Accrued expenses | 2,814 | 2,415 |
| Start-up expenses | 690 | 730 |
| Net operating loss carryforward | 242 | - |
| Impairment - Operating lease | 1,675 | - |
| Capital loss carryforward | - | 114 |
| Total deferred income tax assets | 17,294 | 15,775 |
| Deferred income tax liability: | | |
| ROU asset | (8,994) | (9,979) |
| Depreciation | (694) | (905) |
| Property tax expense | (16) | (15) |
| Total deferred income tax liability | (9,704) | (10,899) |
| Net deferred income tax asset | $ 7,590 | $ 4,876 |

Income taxes paid by AARP during 2023 and 2022 totaled approximately $7,568,000 and $4,740,000, 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, hedge funds and real estate funds, managed by outside fund managers.

During 2023 and 2022, AARP discretionary employer contributions to the Pension Plan totaled $45,000,000, respectively. AARP was not required to make annual minimum contributions in 2023 or 2022. AARP made a $20,000,000 discretionary contribution to the Pension Plan in January of 2024.

The components of net periodic pension benefit cost for the years ended December 31, 2023 and 2022 were as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Service cost | $ 31,291 | $ 55,903 |
| Interest cost | 66,498 | 52,541 |
| Expected return on plan assets | (92,168) | (88,508) |
| Amortization of actuarial (gain) loss | (102) | 26,792 |
| | $ 5,519 | $ 46,728 |

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

| | 2023 | 2022 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ (1,180,064) | $ (1,684,508) |
| Service cost | (31,291) | (55,903) |
| Interest cost | (66,498) | (52,541) |
| Actuarial (loss) gain | (64,119) | 573,635 |
| Benefits paid | 43,359 | 39,253 |
| Benefit obligation at end of year | (1,298,613) | (1,180,064) |
| Change in plan assets: | | |
| Fair value at beginning of year | 1,297,336 | 1,440,965 |
| Actual return on plan assets | 167,245 | (149,376) |
| Contribution to the plan | 45,000 | 45,000 |
| Benefits paid | (43,359) | (39,253) |
| Fair value at end of year | 1,466,222 | 1,297,336 |
| Prepaid pension asset | $ 167,609 | $ 117,272 |

The primary reason for the increase in AARP's pension asset for the year ended December 31, 2023 was the significant increase in the funded status of the pension due to the $45 million contribution and the 12.7% of actual returns which was greater than the expected 7.25% asset return assumption. These gains were offset by a decline in the discount rate. The December 31, 2023 year-end discount rate was 5.26%, which decreased from 5.58% at December 31, 2022.

The primary reason for the increase in AARP's pension asset for the year ended December 31, 2022 was the significant increase in the discount rate. The December 31, 2022 year-end discount rate was 5.58%, which increased from 3.05% at December 31, 2021. The actual return of the Plan assets was less than the expected 7.25% asset return assumption, but the large increase in the discount rate ultimately improved the funded position.

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2023 and 2022 measurement dates were as follows:

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 5.26% | 5.58% |
| Future salary increases | 4.00% | 4.00% |

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2023 and 2022 measurement dates were as follows:

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 5.58% | 3.05% |
| Expected long-term rate of return on plan assets | 7.25% | 7.25% |
| Future salary increases | 4.25% | 4.00% |

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

| | |
|---|---|
| 2024 | $ 49,433 |
| 2025 | 52,766 |
| 2026 | 55,985 |
| 2027 | 59,338 |
| 2028 | 62,979 |
| Years 2029-2033 | 378,766 |

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2023 and 2022, follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Net actuarial income | $ (176,406) | $ (165,549) |

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, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Asset categories: | | |
| Equity securities | 43% | 43% |
| Debt securities | 24 | 24 |
| Alternatives | 32 | 32 |
| Cash equivalents | 1 | 1 |
| | 100% | 100% |

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, 2023 and 2022, the fair value of AARP's Pension Plan assets, by asset category within the fair value hierarchy consisted of the following (in thousands):

| | 2023 Total | Level 1 | Level 2 | Net Asset Value |
|---|---|---|---|---|
| Investments | | | | |
| Equity securities and funds: | | | | |
| Global and international | $ 413,432 | $ 454 | $ - | $ 412,978 |
| Emerging markets | 1,576 | - | - | 1,576 |
| U.S. large-mid cap | 204,860 | 15,904 | - | 188,956 |
| U.S. small cap | 11,821 | 11,821 | - | - |
| Fixed income securities and funds: | | | | |
| Global and international | 87,213 | 72,265 | 14,948 | - |
| Mortgage and asset-backed | 366 | - | 366 | - |
| U.S. corporate and investment grade | 178,166 | 74,402 | 42,399 | 61,365 |
| U.S. government and treasury securities | 72,318 | 72,318 | - | - |
| Municipal | 575 | - | 575 | - |
| Short-term | 11,274 | - | - | 11,274 |
| International government | 2,154 | - | 2,154 | - |
| Balanced fund | 11,713 | - | - | 11,713 |
| Real assets and commodity funds: | | | | |
| Commingled real estate funds | 90,509 | - | - | 90,509 |
| Infrastructure | 32,343 | - | - | 32,343 |
| Private real estate funds | 8,884 | - | - | 8,884 |
| Hedge funds: | | | | |
| Multi-strategy | 77,167 | - | - | 77,167 |
| Equity long/short | 51,144 | - | - | 51,144 |
| Event driven/credit | 32,925 | - | - | 32,925 |
| Global macro | 37,731 | - | - | 37,731 |
| Private equity | | | | |
| U.S. domestic | 101,042 | - | - | 101,042 |
| Global and international | 22,592 | - | - | 22,592 |
| Private credit fund | 8,220 | - | - | 8,220 |
| Total | 1,458,025 | $ 247,164 | $ 60,442 | $ 1,150,419 |
| Cash and cash equivalents | 8,197 | | | |
| Total investments | $ 1,466,222 | | | |

| | 2022 Total | Level 1 | Level 2 | Net Asset Value |
|---|---|---|---|---|
| Investments: | | | | |
| Equity securities and funds: | | | | |
| Global and international | $ 373,542 | $ 670 | $ - | $ 372,872 |
| Emerging markets | 1,617 | - | - | 1,617 |
| U.S. large-mid cap | 173,965 | 11,784 | - | 162,181 |
| U.S. small cap | 10,414 | 10,414 | - | - |
| Fixed income securities and funds: | | | | |
| Global and international | 82,958 | 67,532 | 15,426 | - |
| Mortgage and asset-backed | 186 | - | 186 | - |
| U.S. corporate and investment grade | 209,896 | 67,399 | 28,522 | 113,975 |
| U.S. government and treasury securities | 16,010 | 16,010 | - | - |
| Municipal | 535 | - | 535 | - |
| Short-term | 184 | - | - | 184 |
| International government | 1,363 | - | 1,363 | - |
| Balanced fund | 1,617 | - | - | 1,617 |
| Real assets and commodity funds: | | | | |
| Commingled real estate funds | 103,243 | - | - | 103,243 |
| Infrastructure | 29,840 | - | - | 29,840 |
| Private real estate funds | 1,907 | - | - | 1,907 |
| Hedge funds: | | | | |
| Multi-strategy | 70,180 | - | - | 70,180 |
| Equity long/short | 50,483 | - | - | 50,483 |
| Event driven/credit | 30,257 | - | - | 30,257 |
| Global macro | 34,793 | - | - | 34,793 |
| Private equity | | | | |
| U.S. domestic | 81,104 | - | - | 81,104 |
| Global and international | 15,353 | - | - | 15,353 |
| Private Credit Fund: | 1,360 | - | - | 1,360 |
| Total | 1,290,807 | $ 173,809 | $ 46,032 | $ 1,070,966 |
| Cash and cash equivalents | 6,529 | | | |
| Total investments | $ 1,297,336 | | | |

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, 2023 and 2022 was as follows (in thousands):

| | 2023 NAV | Unfunded Commitments | 2022 NAV | Redemption Frequency | Redemption Notice Period | Redemption Restrictions |
|---|---|---|---|---|---|---|
| Equity securities and funds: | | | | | | |
| Global and international fund (a) | $ 412,978 | N/A | $ 372,872 | Daily, weekly, semi-monthly | 1-30 days | N/A |
| Emerging markets funds (b) | 1,576 | N/A | 1,617 | Daily | 1 day | N/A |
| U.S. large-mid cap (c) | 188,956 | N/A | 162,181 | Daily | 2 days | N/A |
| Fixed income securities and funds: | | | | | | |
| Various sector funds (d) | 72,639 | N/A | 114,159 | Daily | None | N/A |
| Balanced fund (e) | 11,713 | N/A | 1,617 | Daily | None | N/A |
| Real assets and commodity funds: | | | | | | |
| Commingled real estate funds (f) | 90,509 | 10,000 | 103,243 | Quarterly | 60-90 days | N/A |
| Infrastructure (g) | 32,343 | 8,844 | 29,840 | Quarterly, annually | 90-180 days | None |
| Private real estate funds - U.S. (h) | 8,884 | 34,973 | 1,907 | N/A | N/A | N/A |
| Hedge funds: | | | | | | |
| Multi-strategy (i) | 77,167 | N/A | 70,180 | Monthly, quarterly, semi-annually, annually | 60-90 days | Redemption % or Lock-up provisions up to 3 years |
| Equity long/short (j) | 51,144 | N/A | 50,483 | Monthly, quarterly | 30-65 days | Redemption % |
| Event driven/credit (k) | 32,925 | N/A | 30,257 | Quarterly | 60 days | Redemption % |
| Global macro (l) | 37,731 | N/A | 34,793 | Monthly, quarterly | 10-90 days | Redemption % |
| Private equity funds: | | | | | | |
| Private equity fund - U.S. (m) | 101,042 | 67,816 | 81,104 | N/A | N/A | N/A |
| Private equity fund - Global and international (n) | 22,592 | 49,823 | 15,353 | N/A | N/A | N/A |
| Private credit fund (o) | 8,220 | 22,518 | 1,360 | N/A | N/A | N/A |
| | $ 1,150,419 | $ 193,974 | $ 1,070,966 | | | |

(a) 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.

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

(d) 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.

(e) 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.

(f) 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.

(g) This category includes open-ended private funds which seek to invest in a diversified portfolio of global infrastructure real assets within the United States 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. Approximately 11% and 10% of the investments in this category have no redemption rights at December 31, 2023 and 2022, respectively.

(h) This category includes real estate funds and private real estate partnerships through both debt and equity interests in real estate related assets. This asset category provides diversification across geographies with the objective of capital appreciation and leveraging capabilities to unlock value. The nature of the investments in this category is that distributions are received through liquidation of the underlying assets of the funds.

(i) 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. In addition to lock-up periods, some investments include "gates" which limit the percentage of the Pension Plan's investments that can be redeemed at one time. Redemption percentages begin at 25% with full redemption over four quarters.

(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. Some investments include "gates" which limit the percentage of the Pension Plan's investments that can be redeemed at one time. Redemption percentages begin at 12.5% with full redemption over four to eight quarters.

(k) 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. Some investments include "gates" which limit the percentage of the Pension Plan's investments that can be redeemed at one time. Redemption rates are 50% per redemption period.

(l) 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. Some investments include "gates" which limit the percentage of the Pension Plan's investments that can be redeemed at one time. Redemption percentages begin at 25% with full redemption over four quarters.

(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.

(o) This category includes investments in drawdown vehicles invested in a diversified portfolio of private debt including stressed and distressed debt. 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 Postretirement Medical Plan.

The components of net periodic postretirement health benefit cost for the years ended December 31, 2023 and 2022 were as follows (in thousands):

| | **2023** | **2022** |
|---|---|---|
| Service cost | $ 2,376 | $ 5,303 |
| Interest cost | 5,373 | 4,609 |
| Amortization of actuarial gain | (4,670) | - |
| | $ 3,079 | $ 9,912 |

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):

| | **2023** | **2022** |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ (101,090) | $ (165,513) |
| Service cost | (2,376) | (5,303) |
| Interest cost | (5,373) | (4,609) |
| Actuarial (loss) gain | (1,383) | 71,108 |
| Participant contributions | (979) | (930) |
| Benefits paid, net subsidy | 5,175 | 4,157 |
| Benefit obligation at end of year | (106,026) | (101,090) |
| Change in plan assets: | | |
| Fair value at beginning of year | - | - |
| Employer contribution | 4,196 | 3,227 |
| Plan participants' contributions | 979 | 930 |
| Benefits paid | (5,175) | (4,157) |
| Fair value at end of year | - | - |
| Accrued postretirement health benefits | $ (106,026) | $ (101,090) |

As of December 31, 2023 and 2022, the weighted average discount rates used in the actuarial valuation were as follows:

| | **2023** | **2022** |
|---|---|---|
| End of year benefit obligation | 5.27% | 5.59% |
| Net periodic benefit cost | 5.59% | 3.05% |

For measurement purposes, the health care cost trend rate was 6.40% for 2023 and 6.60% for 2022 (the rate is assumed to decrease gradually to 4.6% in 2033 and remain level thereafter).

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

| | | |
|---|---|---|
| 2024 | $ | 4,876 |
| 2025 | | 5,340 |
| 2026 | | 5,698 |
| 2027 | | 6,273 |
| 2028 | | 6,657 |
| Years 2029-2033 | | 40,215 |

Amounts not yet recognized as a component of net periodic benefit cost at December 31, 2023 and 2022 were as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Net actuarial gain | $ (61,236) | $ (67,290) |

## 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, 2023 and 2022, expenses for the AARP Welfare Plan for current healthcare benefits totaled $36,841,000 and $32,407,000, respectively. As of December 31, 2023 and 2022, AARP had a liability related to these benefits of $3,903,000 and $3,630,000, 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, 2023 and 2022, AARP employer contributions to this plan totaled $14,746,000 and $13,317,000, respectively.

## NOTE 17 - BOARD DESIGNATED NET ASSETS

Net assets without donor restrictions that have been designated by AARP at December 31, 2023 and 2022 were available to fund the following (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Debt retirement sinking fund (Note 11) | $ 170,100 | $ 165,800 |
| Operating reserves | 64,460 | 62,407 |
| Quasi-endowments | 570,958 | 539,010 |
| Board designated net assets | $ 805,518 | $ 767,217 |

## NOTE 18 - CONTINGENCIES

The Foundation, LCE and OATS receive a substantial portion 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, LCE or OATS.

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, 2023 consolidated financial statements for subsequent events through March 18, 2024, the date the consolidated financial statements were issued.

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