



**AARP FOUNDATION**

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

**AARP FOUNDATION**  
Consolidated Financial Statements  
December 31, 2008 and 2007

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

The Board of Directors  
AARP Foundation:

We have audited the accompanying consolidated statements of financial position of the AARP Foundation and subsidiary as of December 31, 2008 and 2007, and their related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the AARP Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AARP Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the AARP Foundation and subsidiary as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, AARP Foundation adopted Financial Accounting Standards Board Statement No.157, *Fair Value Measurements*, in 2008.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in the Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

March 27, 2009

**AARP FOUNDATION**  
Consolidated Statements of Financial Position  
December 31, 2008 and 2007  
(In thousands)

	<b>2008</b>	<b>2007</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 13,772	\$ 9,941
Contributions receivable (note 4)	1,242	2,674
Grants receivable (note 5)	6,461	6,813
Due from affiliates (note 6)	2,942	6,152
Prepaid expenses and other assets	1,877	1,488
Investments (note 3)	52,307	69,896
Property and equipment, net (note 7)	19,926	20,690
Charitable gift annuity investments (note 3)	7,560	10,341
Total assets	\$ 106,087	\$ 127,995
<b>Liabilities:</b>		
Accounts payable and accrued expenses (note 8)	\$ 6,430	\$ 11,886
Deferred revenue	9,522	4,447
Due to affiliates (note 6)	3,516	3,692
Charitable gift annuities payable	6,141	6,436
Bonds payable (note 9)	25,000	25,000
Total liabilities	50,609	51,461
Commitments and contingencies (notes 6, 8, 14 and 16)		
<b>Net assets:</b>		
Unrestricted:		
Undesignated	20,105	38,120
Board designated quasi-endowment (note 17)	11,115	15,148
Board designated operating reserves	16,952	12,987
Total unrestricted	48,172	66,255
Temporarily restricted (note 15)	7,306	10,279
Total net assets	55,478	76,534
Total liabilities and net assets	\$ 106,087	\$ 127,995

See accompanying notes to consolidated financial statements.

**AARP FOUNDATION**

Consolidated Statements of Activities

For the years ended December 31, 2008 and 2007

(In thousands)

	2008			2007		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating revenue:						
Grant revenue (note 10)	\$ 88,665	—	\$ 88,665	\$ 81,518	—	\$ 81,518
Contributions (note 6)	36,343	202	36,545	41,196	111	41,307
In-kind contributions (note 6)	25,122	—	25,122	23,529	—	23,529
Other	399	—	399	796	—	796
Net assets released from restrictions (note 15)	3,175	(3,175)	—	2,338	(2,338)	—
Total operating revenue	153,704	(2,973)	150,731	149,377	(2,227)	147,150
Expenses:						
Program services (notes 11 and 12):						
WorkSearch	98,717	—	98,717	91,474	—	91,474
Tax-Aide	11,641	—	11,641	10,150	—	10,150
Legal Advocacy	5,491	—	5,491	5,056	—	5,056
Other programs	13,878	—	13,878	14,165	—	14,165
Total program services	129,727	—	129,727	120,845	—	120,845
Supporting services:						
Fundraising (note 12)	15,862	—	15,862	17,052	—	17,052
Management and general	6,465	—	6,465	7,119	—	7,119
Total supporting services	22,327	—	22,327	24,171	—	24,171
Total expenses	152,054	—	152,054	145,016	—	145,016
Change in net assets from operations	1,650	(2,973)	(1,323)	4,361	(2,227)	2,134
Other changes in net assets						
Investment (loss) income (note 3)	(19,442)	—	(19,442)	4,651	—	4,651
Change in value of charitable gift annuities	(291)	—	(291)	(396)	—	(396)
Change in net assets	(18,083)	(2,973)	(21,056)	8,616	(2,227)	6,389
Net assets, beginning of year	66,255	10,279	76,534	57,639	12,506	70,145
Net assets, end of year	\$ 48,172	7,306	\$ 55,478	\$ 66,255	10,279	\$ 76,534

See accompanying notes to consolidated financial statements.

## AARP FOUNDATION

### Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(In thousands)

	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Change in net assets	\$ (21,056)	\$ 6,389
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	805	736
Amortization of debt issuance costs	17	17
Net realized and unrealized losses (gains) on investments	22,683	(1,473)
Change in value of charitable gift annuities	291	396
Changes in operating assets and liabilities:		
Contributions receivable	1,432	429
Grants receivable	352	(664)
Due from affiliates	3,210	907
Prepaid expenses and other assets	(406)	1,270
Accounts payable and accrued expenses	(5,456)	95
Deferred revenue	5,075	1,387
Due to affiliates	(176)	(2,173)
Charitable gift annuities payable	(586)	179
Net cash provided by operating activities	6,185	7,495
Cash flows from investing activities:		
Purchase of property and equipment	(41)	(579)
Purchase of investments	(9,890)	(31,464)
Proceeds from sales and maturities of investments	7,577	11,689
Net cash used in investing activities	(2,354)	(20,354)
Net increase (decrease) in cash and cash equivalents	3,831	(12,859)
Cash and cash equivalents, beginning of year	9,941	22,800
Cash and cash equivalents, end of year	\$ 13,772	\$ 9,941
Cash paid for interest	\$ 592	\$ 916

See accompanying notes to consolidated financial statements.

# AARP FOUNDATION

## Consolidated Financial Statements

December 31, 2008 and 2007

### 1 Description of Organization

The AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. The AARP Foundation is AARP, Inc.'s (AARP) charitable organization, dedicated to enhancing the quality of life for all as we age and to promoting positive social change and value to those 50 and older with emphasis on those at social and economic risk. The AARP Foundation is a nonprofit organization qualified under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income taxes on its charitable operations. In addition, the AARP Foundation is a public charity as defined in Section 509(a)(1) of the Internal Revenue Code.

The AARP Foundation receives funding from federal and state governments, AARP, foundations, corporations, and individuals. The AARP Foundation's Board of Directors is composed of members appointed by AARP Inc.'s Board of Directors.

The AARP Institute (the Institute), a wholly owned subsidiary of the AARP Foundation, was organized in 1963 as a District of Columbia not-for-profit corporation. The Institute is a nonprofit organization qualified under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income taxes on its charitable operations. In addition, the Institute is a supporting organization as defined in Section 509(a)(3) of the Internal Revenue Code.

### 2 Summary of Significant Accounting Policies

#### *a Basis of Presentation*

These consolidated financial statements include the accounts of AARP Foundation and the Institute (collectively, the Foundation). The Foundation prepares its financial statements on the accrual basis of accounting. The Foundation summarizes the costs of providing its various programs and other activities on a functional basis in the accompanying statements of activities. Accordingly, certain costs are allocated among program and supporting services based on specific identification or allocation methodologies.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

*Unrestricted* – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors to function as quasi-endowment and operating reserves.

*Temporarily restricted* – net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

#### *b Cash Equivalents*

Short-term deposits and investments with original maturities of three months or less are reported as cash equivalents, except for cash or money market accounts held by external managers.

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#### ***c Investments***

Investments are measured and reported at fair value. Those with a readily determinable fair value are based on quotations obtained from national security exchanges.

Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. Foundation management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

Changes in fair value are reported as investment income or loss in the consolidated statement of activities.

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

#### ***d Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are 26 years for office space, 10 years for building improvements, and 3 years for equipment. Land is not subject to depreciation. Maintenance and repair costs are expensed as incurred.

#### ***e Charitable Gift Annuities***

The Foundation has entered into a number of charitable gift annuity (CGA) agreements with its donors. Under the terms of these agreements, the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time (usually the donor's lifetime) to the donor or to individuals or organizations designated by the donor.

At the inception of a CGA agreement, the excess of the fair value of assets received over the present value of annuity payments to be made to the donor or beneficiary is recognized as a charitable contribution.

The assets held for all charitable gift annuities are reported in charitable gift annuity investments on the statement of financial position and stated at fair value. Gains and losses resulting from changes in actuarial assumptions are reported as increases or decreases in unrestricted net assets in the statement of activities. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows; based on appropriate discount rates and mortality tables. The Foundation invests the charitable gift annuities in accordance with the limitations imposed by relevant state laws.

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The AARP Board of Directors has committed to assume the Foundation's charitable gift annuity liabilities in the event the Foundation were to be unable to fulfill its obligations.

***f Grant Revenue***

Grant revenue is recognized to the extent allowable expenses are incurred. Amounts reported as grants receivable represent grant program expenses incurred in advance of the receipt of funds. Funds received in advance of grant program expenses are reported as deferred revenue.

***g Contributions***

The Foundation reports contributions as revenue when received or pledged by the donor. The Foundation reports contributions as temporarily restricted revenue if such gifts are restricted by the donor to a specific program or include an explicit or implied time restriction.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Gifts whose donor-stipulated purposes are met in the same year as received are reported as unrestricted revenue.

***h In-kind Contributions***

A portion of the Foundation's contributed services involves the Senior Community Service Employment Program (SCSEP) through which the Foundation receives donated supervisory services. These contributed services are recorded at their estimated fair values as both revenue and program expenses in the statement of activities. Donated supervisory services of \$14,920,000 and \$14,218,000 were recognized for the years ended December 31, 2008 and 2007, respectively.

Over 33,000 volunteers provide tax preparation assistance each year under the Tax-Aide program. The Foundation has concluded that these donated services do not meet the requirements for recognition as contributed services under U.S. generally accepted accounting principles.

In addition, AARP contributes certain services to the Foundation (see note 6).

***i Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

***j Income Taxes***

The Foundation recognizes income tax positions based on a 'more-likely-than-not' threshold. The Foundation has no uncertain income tax positions in 2008 or 2007.

***k Reclassifications***

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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#### *l Measure of Operations*

The Foundation reports as change in net assets from operations all activities, except for investment income or loss and the change in value of charitable gift annuities

#### *m Fair Value Measurements*

The carrying value of financial instruments in the financial statements approximates fair value.

On January 1, 2008, the Foundation adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), for fair value measurements of financial assets and financial liabilities (note 3), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB Staff Position 157-2, *Effective Date of FASB Statement No.157*, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Foundation will be required to apply these provisions beginning on January 1, 2009, and is in the process of evaluating their impact.

The assets that are recorded at fair value on a recurring basis are investments and charitable gift annuity investments. The Foundation has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

SFAS 157 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Foundation's level 1 assets include cash and cash equivalents, equity securities, US government and agency obligations, and fixed income securities except for approximately \$3.3 million which is classified as Level 2.

Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets. The Foundation's level 2 assets include approximately \$3.3 million invested in fixed income securities, mortgage-backed securities and institutional mutual funds, both equity and fixed income.

Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Foundation does not currently hold any Level 3 assets.

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### 3 Investments

Foundation investments include shares in AARP's unitized pooled investment fund. Income and gains/losses are allocated based on the Foundation's pro rata share of the investment pool.

The fair value of the Foundation's share of pooled assets was approximately \$44,892,000 and \$61,513,000 at December 31, 2008 and 2007, respectively.

Investments, including amounts held for charitable gift annuities, are summarized as follows at December 31, 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Equity securities	\$ 10,375	\$ 14,846
Fixed income securities	13,180	11,894
United States government and agency obligations	770	1,088
Mortgage-backed securities	4,759	5,202
Institutional mutual funds – fixed income	12,048	11,227
Institutional mutual fund - equity	18,235	34,362
Cash and cash equivalents	500	1,618
Total	\$ 59,867	\$ 80,237

The Foundation's investments are classified as follows, under the definitions in note 2m, at December 31, 2008 (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Investments	\$ 14,613	37,694	\$ 52,307
Charitable gift annuity investments	6,866	694	7,560
Total	\$ 21,479	38,388	\$ 59,867

Investment income (loss) for the years ended December 31, 2008 and 2007 is summarized as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Interest and dividend income	\$ 3,241	\$ 3,178
Net realized and unrealized (losses) gains	(22,683)	1,473
Total	\$ (19,442)	\$ 4,651

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**4 Contributions Receivable**

Contributions receivable as of December 31, 2008 and 2007 are expected to be received as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Within one year	\$ 650	\$ 1,650
Between two and five years	500	950
Thereafter	152	203
	1,302	2,803
Unamortized discount (4 – 7%)	(60)	(129)
Net contributions receivable	\$ 1,242	\$ 2,674

**5 Grants Receivable**

Grants receivable consist of amounts due from the following sources as of December 31, 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Department of Labor	\$ 4,507	\$ 5,142
Internal Revenue Service	1,434	1,413
Other	520	258
Total	\$ 6,461	\$ 6,813

**6 Related-Party Transactions**

***a Contributions***

AARP, Inc. made contributions to the Foundation totaling \$31,693,000 and \$30,833,000 for the years ended December 31, 2008 and 2007, respectively. These totals include donated services valued at \$10,116,000 and \$9,311,000 for the years ended December 31, 2008 and 2007, respectively.

AARP contributions represented approximately 21% of the Foundation's operating revenue in each of the years ended December 31, 2008 and 2007.

***b Postretirement Health Benefits Obligation***

The Foundation participates in the AARP postretirement health benefit program. A 1997 resolution by the AARP Board of Directors stated AARP's intent to assume responsibility for postretirement health benefits relating to the Foundation's employees. AARP currently funds these benefits as claims are received from eligible Foundation retirees.

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### Consolidated Financial Statements

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**c Office Space**

Under a continuing operations agreement associated with the Foundation's office space located within the AARP headquarters building, certain shared facilities costs are billed to the Foundation by AARP Inc., including utilities, maintenance, security and building management. These costs were approximately \$556,000 and \$602,000 for the years ended December 31, 2008 and 2007, respectively.

A portion of the Foundation's office space is occupied by Legal Counsel for the Elderly (LCE), an affiliate of AARP Inc. LCE is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The space and associated shared facilities costs were donated to LCE as an in-kind contribution. These costs were approximately \$429,000 and \$418,000 for the years ended December 31, 2008 and 2007, respectively.

**d Grants to AARP, Inc.**

The Foundation has awarded grants to AARP, Inc. for charitable programs. Expenses of \$3,154,000 and \$2,534,000 were recognized for the years ended December 31, 2008 and 2007, respectively. Approximately \$1,086,000 and \$1,119,000 of the recognized amounts remained unpaid as of December 31, 2008 and 2007, respectively, and are included as a component of 'Due to Affiliates' in the accompanying statements of financial position.

**e Due to or from Affiliates**

Amounts reported as due to or from affiliates included in the accompanying statements of financial position arise principally from the activities described above, and are settled on a quarterly basis. In addition, AARP, Inc. advanced \$1,550,000 for direct expenses of the Tax-Aide program, which is expected to be repaid when the program terminates.

## 7 Property and Equipment

Property and equipment is summarized as follows at December 31, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Land	\$ 4,440	\$ 4,440
Building and improvements	18,265	18,265
Equipment	328	287
Accumulated depreciation	<u>(3,107)</u>	<u>(2,302)</u>
Property and equipment, net	<u>\$ 19,926</u>	<u>\$ 20,690</u>

## 8 Employee Healthcare Benefits

The Foundation participates with other AARP affiliates in the AARP Employees' Welfare Plan, which provides certain healthcare and other welfare benefits to active employees. The Welfare Plan receives contributions from all participating entities to provide benefits, based on expected costs of providing these benefits. Expenses incurred by the Foundation for healthcare benefits were \$1,654,000 and \$1,356,000 for the years ended December 31, 2008 and 2007, respectively. The total estimated liability, including incurred

## AARP FOUNDATION

### Consolidated Financial Statements

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but not reported claims, at December 31, 2008 and 2007 was approximately \$285,000 and \$306,000, respectively, and is included as a component of accounts payable and accrued expenses in the accompanying statements of financial position.

#### 9 Bonds Payable

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 in the AARP headquarters building. The face value of the bonds is repayable in full on October 20, 2034. The bonds bear interest at a 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 rates on December 31, 2008 and 2007, respectively, were 1.20% and 3.48%. Total interest expense incurred for the years ended December 31, 2008 and 2007 was approximately \$540,000 and \$909,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

The fair value of the bonds is estimated to be the carrying value, since the bond bears variable market interest rates.

The Foundation has obtained a letter of credit to secure repayment of the bond. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of each bond outstanding.

AARP has entered into a Standby Bond Purchase Agreement with the Foundation and the issuer of the Letter of Credit to purchase all bonds in the event the Foundation defaults on the bonds under the terms and conditions of the agreement.

#### 10 Grant Revenue

Grant revenue from the following sources was recognized for the years ended December 31 (in thousands):

	<u>2008</u>	<u>2007</u>
Department of Labor	\$ 79,349	\$ 73,381
Internal Revenue Service	4,084	3,396
Department of Housing and Urban Development	388	342
Department of Health and Human Services/AoA	362	638
Corporation for National and Community Service	—	303
State agencies	676	435
Corporations and foundations	3,806	3,023
Total	<u>\$ 88,665</u>	<u>\$ 81,518</u>

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#### 11 Program Services

During the years ended December 31, 2008 and 2007, the Foundation's programs were as follows:

The *WorkSearch* program provides direct services to adults seeking training and employment through two primary routes: the WorkSearch Assessment System and the Senior Community Service Employment Program (SCSEP). The WorkSearch Assessment System provides community-level job and career information and services to low and middle income adults who are seeking to remain in or re-enter the workforce. WorkSearch is a customized system that provides a variety of services, including interest and ability inventories, skills assessments, online courses and study guides for those wishing to increase their skill level, and links to local employment opportunities. SCSEP 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 project is primarily funded by the U.S. Department of Labor. Department of Labor revenue represented approximately 53% and 50% of the Foundation's operating revenue for the years ended December 31, 2008 and 2007, respectively. The current federal grant to the Foundation expires on June 30, 2009.

*Tax-Aide* provides volunteer services 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 funded by AARP Foundation and the Internal Revenue Service. The current federal grant to the Foundation expires on September 30, 2009.

*Legal Advocacy* protects and preserves the rights of older Americans through both amicus curiae (friend of the court) briefs and third-party litigation.

*Other programs* provide information, counseling, training, and technical assistance to older persons and their service providers on various matters including economic security, benefits outreach, consumer, legal, and housing issues.

Management anticipates that the Department of Labor and Internal Revenue Service grants will be renewed. The continuation of grant-funded programs beyond the expiration dates of current agreements is subject to future funding decisions by sponsoring agencies.

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#### 12 Allocation of Joint Costs

In 2008 and 2007, the Foundation conducted direct mail campaigns that included requests for contributions, as well as program components. The costs of conducting those activities are not specifically attributable to particular components of the activities. (joint costs). These joint costs were allocated as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Fundraising	\$ 3,664	912
WorkSearch	95	—
Tax-Aide	95	—
Legal Advocacy	95	—
Other programs	474	110
Total	<u>\$ 4,423</u>	<u>1,022</u>

#### 13 Defined-Benefit Pension Plan

The Foundation participates with other AARP affiliates in the AARP Employees' Pension Plan (the Plan), a single employer, noncontributory defined-benefit pension plan sponsored by AARP, Inc. The Plan covers all Foundation employees after they meet specified eligibility requirements.

All actuarially-determined liabilities and assets relating to accrued pension are recorded on the books of AARP, Inc. Cash contributions to the Plan will be recorded as expenses in the year in which the contributions are due.

There were no employer contributions by the Foundation to the Plan in 2008 and 2007. The Foundation will not be required to make a contribution to the pension plan in 2009. However, supplemental contributions may be made that are not estimable at this time.

#### 14 Defined-Contribution Plan

The Foundation participates in a single-employer defined-contribution plan called the AARP Employees' 401(k) Plan. To participate in the 401(k) Plan, an employee must be at least 18 years of age and have been employed for a minimum of one month of continuous service with the Foundation.

The Foundation makes contributions to the 401(k) Plan for its employees, matching employee contributions at 100% of the first 3%, and 50% of the next 2% of employee compensation up to the maximum limits allowed by law.

Employer contributions totaled \$607,000 and \$682,000 for the years ended December 31, 2008 and 2007, respectively.

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**15 Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of December 31, 2008 and 2007 (in thousands):

	<b>2008</b>	<b>2007</b>
Purpose-restricted:		
SCSEP	\$ 3,444	\$ 3,444
Other programs	802	1,492
Fundraising	1,818	2,669
Total purpose-restricted	6,064	7,605
Time-restricted	1,242	2,674
Total	\$ 7,306	\$ 10,279

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors during 2008 and 2007, as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Purpose-restricted releases:		
Other programs	\$ 915	\$ 1,024
Fundraising	852	895
Total purpose-restricted	1,767	1,919
Time-restricted	1,408	419
Total	\$ 3,175	\$ 2,338

**16 Contingencies**

The Foundation is a party to various claims and potential legal actions. Management believes, based upon advice of counsel, that the disposition of these matters will not have a significant effect on the financial position of the Foundation.

The Foundation receives a substantial portion of its revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the governments or their designees. The liabilities, if any, arising from such compliance audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a significant effect on the financial position of the Foundation.

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### Consolidated Financial Statements

December 31, 2008 and 2007

The Foundation leases office space in a number of states to facilitate the local delivery of its SCSEP and other programs, under operating leases with various lease terms. Total rent incurred under operating leases was approximately \$1,438,000 and \$1,302,000 for the years ended December 31, 2008 and 2007, respectively.

#### 17 Board-Designated Quasi-Endowment

In August 2008, FASB issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act [UPMIFA] and Enhanced Disclosures for all Endowment Funds (FSP)*. The guidance included in this staff position is effective for fiscal years ending after December 15, 2008.

Much of the guidance in the FSP relates to revisions to the rules governing the accounting for donor-restricted endowment funds subject to UPMIFA. Although the District of Columbia has adopted UPMIFA, the Foundation has no such net assets. The FSP also mandates expanded disclosures for all endowment funds, including board-designated funds.

The Foundation board has established a board-designated quasi-endowment fund, and adopted a policy under which certain unrestricted gifts, bequests and charitable gift annuity severance amounts are designated to the fund.

The board also adopted a spending policy, which permits an annual transfer to operating funds of up to 5% of the previous 12 quarters average quasi-endowment fund balance. The board requires that the assets of the quasi-endowment fund be invested in a prudent manner, in a broadly diversified portfolio spread over multiple asset classes.

The transactions affecting the board-designated quasi-endowment may be summarized as follows:

	<u>2008</u>	<u>2007</u>
Board-designated quasi-endowment, January 1	\$ 15,148	\$ 14,839
Interest and dividends	482	517
Realized and unrealized losses	(4,769)	(66)
Designations	963	858
Appropriation for spending	(709)	(1,000)
Board-designated quasi-endowment, December 31	<u>\$ 11,115</u>	<u>\$ 15,148</u>

#### 18 Subsequent Events

Since December 31, 2008 and through the date of the issuance of these financial statements, the value of the Foundation's investments has declined from the fair values as of December 31, 2008, as reported in these financial statements. The rate of decline has been consistent with the general trend in the financial markets during this period.

## AARP FOUNDATION

## Schedule of Functional Expenses

For the year ended December 31, 2008

(with comparative totals for the year ended December 31, 2007)

(In thousands)

	Program services				Supporting services			2008 Total expenses	2007 Total expenses	
	WorkSearch	Tax-Aide	Legal Advocacy	Other programs	Total program services	Fundraising	Management and general			Total supporting services
Expenses:										
Enrollee wages and benefits	\$ 66,095	—	—	—	66,095	—	—	—	66,095	61,303
In-kind supervisory salaries	14,920	—	—	—	14,920	—	—	—	14,920	14,218
In-kind services from AARP and others	591	1,345	439	679	3,054	3,154	3,994	7,148	10,202	9,311
Compensation and temporary labor	8,561	1,168	3,829	3,521	17,079	2,306	1,483	3,789	20,868	21,565
Printing and postage	367	1,064	141	1,429	3,001	6,678	76	6,754	9,755	10,046
Promotion	190	6	40	219	455	123	61	184	639	1,613
Volunteers	2	5,755	1	134	5,892	—	79	79	5,971	5,231
Meetings and travel	725	35	91	646	1,497	174	112	286	1,783	2,309
Occupancy	1,464	90	117	310	1,981	103	45	148	2,129	1,990
Telecommunications	440	65	14	106	625	16	8	24	649	649
Office supplies and equipment	3,406	1,271	9	95	4,781	12	56	68	4,849	2,552
Consulting and professional services	1,051	568	211	903	2,733	2,191	204	2,395	5,128	5,346
Data processing	296	39	1	63	399	464	—	464	863	965
Depreciation and amortization	98	97	169	245	609	148	65	213	822	753
Insurance and taxes	59	51	98	129	337	78	77	155	492	505
Interest	65	64	111	161	401	97	43	140	541	910
Grant awards	199	—	210	4,965	5,374	—	31	31	5,405	5,326
Miscellaneous	188	23	10	273	494	318	131	449	943	424
Total expenses	\$ 98,717	11,641	5,491	13,878	129,727	15,862	6,465	22,327	152,054	145,016

See accompanying independent auditors' report.