

AARP Foundation

**Consolidated Financial Statements
December 31, 2007 and 2006
Together With Independent Auditors' Report**

AARP Foundation
Consolidated Financial Statements
December 31, 2007 and 2006

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KPMG LLP
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Independent Auditors' Report

The Board of Directors of the
AARP Foundation:

We have audited the accompanying consolidated statements of financial position of the AARP Foundation as of December 31, 2007 and 2006, and the 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 as of December 31, 2007 and 2006, 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.

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 audit 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 28, 2008

AARP Foundation
Consolidated Statements of Financial Position
As of December 31, 2007 and 2006
(in thousands)

| | 2007 | 2006 |
|--|-------------|-------------|
| Assets: | | |
| Cash and cash equivalents | \$ 9,941 | \$ 22,800 |
| Cash and cash equivalents held as collateral (Note 3) | - | 1,504 |
| Contributions receivable (Note 4) | 2,674 | 3,103 |
| Grants receivable (Note 5) | 6,813 | 6,149 |
| Due from affiliates (Note 6e) | 6,152 | 7,059 |
| Prepaid expenses and other assets | 1,488 | 1,271 |
| Property and equipment, net (Note 7) | 20,690 | 20,847 |
| Investments (Note 3) | 69,896 | 49,843 |
| Charitable gift annuity investments (Note 3) | 10,341 | 9,146 |
| Total assets | 127,995 | 121,722 |
| Liabilities: | | |
| Accounts payable and accrued expenses (Note 8) | \$ 11,886 | \$ 10,287 |
| Securities loan payable (Note 3) | - | 1,504 |
| Deferred revenue | 4,447 | 3,060 |
| Due to affiliates (Note 6e) | 3,692 | 5,865 |
| Charitable gift annuities payable | 6,436 | 5,861 |
| Bonds payable (Note 9) | 25,000 | 25,000 |
| Total liabilities | 51,461 | 51,577 |
| Commitments and Contingencies (Notes 6, 8, 13 and 15) | | |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 38,120 | 33,900 |
| Board designated quasi-endowment | 15,148 | 14,839 |
| Board designated operating reserves | 12,987 | 8,900 |
| Total unrestricted | 66,255 | 57,639 |
| Temporarily restricted (Note 14) | 10,279 | 12,506 |
| Total net assets | 76,534 | 70,145 |
| Total liabilities and net assets | \$ 127,995 | \$ 121,722 |

See accompanying notes to financial statements.

AARP Foundation
Consolidated Statements of Activities
Years ended December 31, 2007 and 2006
(in thousands)

| | <u>2007</u> | | | <u>2006</u> | | |
|--|---------------------|-----------------------------------|------------------|---------------------|-----------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Revenues: | | | | | | |
| Grant revenue (Note 10) | \$ 81,518 | \$ - | \$ 81,518 | \$ 81,470 | \$ - | \$ 81,470 |
| Contributions (Note 6) | 41,236 | 111 | 41,347 | 36,743 | 3,243 | 39,986 |
| Change in value of charitable gift annuities | (436) | - | (436) | (493) | - | (493) |
| In-kind contributions (Note 6) | 23,529 | - | 23,529 | 22,190 | - | 22,190 |
| Investment income (Note 3) | 4,651 | - | 4,651 | 5,551 | - | 5,551 |
| Other | 796 | - | 796 | 396 | - | 396 |
| Net assets released from restrictions (Note 14) | 2,338 | (2,338) | - | 3,795 | (3,795) | - |
| Total revenues | <u>153,632</u> | <u>(2,227)</u> | <u>151,405</u> | <u>149,652</u> | <u>(552)</u> | <u>149,100</u> |
| Expenses: | | | | | | |
| Program services (Note 11): | | | | | | |
| Senior Community Service Employment | 89,461 | - | 89,461 | 86,483 | - | 86,483 |
| Tax Counseling for the Elderly | 10,150 | - | 10,150 | 10,185 | - | 10,185 |
| Legal Advocacy | 5,056 | - | 5,056 | 5,299 | - | 5,299 |
| Other programs | 16,178 | - | 16,178 | 14,002 | - | 14,002 |
| Total program services | <u>120,845</u> | <u>-</u> | <u>120,845</u> | <u>115,969</u> | <u>-</u> | <u>115,969</u> |
| Supporting services: | | | | | | |
| Fundraising | 17,052 | - | 17,052 | 17,528 | - | 17,528 |
| Management and general | 7,119 | - | 7,119 | 6,925 | - | 6,925 |
| Total supporting services | <u>24,171</u> | <u>-</u> | <u>24,171</u> | <u>24,453</u> | <u>-</u> | <u>24,453</u> |
| Total expenses | <u>145,016</u> | <u>-</u> | <u>145,016</u> | <u>140,422</u> | <u>-</u> | <u>140,422</u> |
| Increase in net assets resulting from Pension Plan amendment (Note 12) | - | - | - | 6,562 | - | 6,562 |
| Change in net assets | 8,616 | (2,227) | 6,389 | 15,792 | (552) | 15,240 |
| Net assets, beginning of year | 57,639 | 12,506 | 70,145 | 41,847 | 13,058 | 54,905 |
| Net assets, end of year | <u>\$ 66,255</u> | <u>\$ 10,279</u> | <u>\$ 76,534</u> | <u>\$ 57,639</u> | <u>\$ 12,506</u> | <u>\$ 70,145</u> |

See accompanying notes to financial statements.

AARP FOUNDATION
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006
(in thousands)

| | <u>2007</u> | <u>2006</u> |
|---|-----------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 6,389 | \$ 15,240 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 736 | 719 |
| Amortization of debt issuance costs | 17 | 18 |
| Accrued pension | - | (6,562) |
| Net realized and unrealized gains on investments | (1,473) | (2,707) |
| Change in value of charitable gift annuities | 436 | 493 |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | 429 | (1,834) |
| Grants receivable | (664) | (2,464) |
| Due from affiliates | 907 | 121 |
| Prepaid expenses and other assets | 1,270 | (1,341) |
| Accounts payable, accrued expenses and other liabilities | 95 | (2,717) |
| Deferred revenue | 1,387 | 1,235 |
| Due to affiliates | (2,173) | 3,328 |
| Charitable gift annuities payable | 139 | 80 |
| Net cash provided by operating activities | <u>7,495</u> | <u>3,609</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (579) | (104) |
| Purchase of investments | (31,464) | (40,690) |
| Proceeds from sales and maturities of investments | 11,689 | 9,505 |
| Net cash used in investing activities | <u>(20,354)</u> | <u>(31,289)</u> |
| Cash flows from financing activities: | | |
| Net bond proceeds transferred from trustee | - | 1,802 |
| Net cash provided by financing activities | <u>-</u> | <u>1,802</u> |
| Net decrease in cash and cash equivalents | (12,859) | (25,878) |
| Cash and cash equivalents, beginning of year | <u>22,800</u> | <u>48,678</u> |
| Cash and cash equivalents, end of year | <u>\$ 9,941</u> | <u>\$ 22,800</u> |
| Cash paid for interest | <u>\$ 916</u> | <u>\$ 852</u> |

See accompanying notes to financial statements.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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 non-profit 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'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 non-profit 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.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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.

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. At December 31, 2007 and 2006, the estimated fair values represented approximately 62% and 55%, respectively, of total investments.

Changes in fair value are reported as investment income in the accompanying consolidated statements 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, building improvements, 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 its office condominium, 10 years for building improvements, and 3 years for equipment. Land is not subject to depreciation. Maintenance and repair costs are expensed as incurred.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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 statements 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 statements 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.

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 and Related Expenses

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.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

h) In-kind Contributions

A significant 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 statements of activities. Donated supervisory services of \$14,218,000 and \$14,319,000 were recognized for the years ended December 31, 2007 and 2006 respectively.

Over 32,000 volunteers provide tax preparation assistance each year under the Tax Counseling for the Elderly 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 and assets to the Foundation (see note 10).

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) Adoption of FIN 48, *Accounting for Uncertainty in Income Taxes*

On January 1, 2007, the Foundation adopted the provisions of FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on the Foundation's statement of financial position or statement of activities. The Foundation does not believe its financial statements include (or reflect) any uncertain tax positions.

k) Reclassifications

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

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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 \$61,513,000 and \$41,892,000 at December 31, 2007 and 2006, respectively.

Investments, including amounts held for charitable gift annuities, are summarized as follows at December 31, 2007 and 2006 (in thousands):

| | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| Stock index mutual funds | \$ 46,440 | \$ 36,512 |
| Fixed income securities | 14,662 | 10,713 |
| U.S government and agency obligations | 1,088 | 527 |
| Mortgage-backed securities | 5,202 | 3,838 |
| Institutional mutual funds - Fixed income | 11,227 | 6,659 |
| Cash and cash equivalents | 1,618 | 740 |
| Total investments | <u>\$ 80,237</u> | <u>\$ 58,989</u> |

Investment income for the years ended December 31, 2007 and 2006 is summarized as follows (in thousands):

| | <u>2007</u> | <u>2006</u> |
|-----------------------------------|-----------------|-----------------|
| Interest and dividend income | \$ 3,178 | \$ 2,844 |
| Net realized and unrealized gains | 1,473 | 2,707 |
| Total investment income | <u>\$ 4,651</u> | <u>\$ 5,551</u> |

AARP retains the option of lending its securities to third parties as a tool to defray fees and expenses paid to its investment custodial bank. As a participant in the pool, the Foundation participates in the securities lending program. Under the securities lending plan, AARP temporarily lends its securities to investment brokers and dealers. AARP receives cash and cash equivalents collateral from the borrowers that is maintained at 102% to 105% of the market value of the securities on loan. The collateral is held in money market accounts. AARP still retains the dividends, interest and all other benefits of ownership attached to the securities on loan. When the securities are returned to AARP, the collateral is returned to the borrower. Income is generated from the investment of the collateral for the securities on loan. At December 31, 2006, the Foundation's share of securities loaned and collateral held was approximately \$1,504,000.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

4. Contributions Receivable

Contributions receivable at December 31, 2007 and 2006 are expected to be received as follows (in thousands):

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|-----------------|-----------------|
| Within one year | \$ 1,650 | \$ 1,120 |
| Between two and five years | 950 | 2,050 |
| Thereafter | 203 | 203 |
| | <u>2,803</u> | <u>3,373</u> |
| Unamortized discount (4-7%) | (129) | (270) |
| Net contribution receivable | <u>\$ 2,674</u> | <u>\$ 3,103</u> |

5. Grants Receivable

Grants receivable consist of amounts due from the following sources as of December 31, 2007 and 2006 (in thousands):

| | <u>2007</u> | <u>2006</u> |
|--|-----------------|-----------------|
| Department of Labor | \$ 5,142 | \$ 4,255 |
| Internal Revenue Service | 1,413 | 1,494 |
| Department of Housing and Urban Development | 12 | 82 |
| Department of Health and Human Services/AoA | 43 | 112 |
| Corporation for National and Community Service | 81 | 201 |
| Other | 122 | 5 |
| Total grants receivable | <u>\$ 6,813</u> | <u>\$ 6,149</u> |

6. Related-Party Transactions

a) Contributions

The Foundation obtains services from AARP under a contractual agreement covering personnel costs and other direct and indirect costs. Pursuant to that agreement, AARP made contributions totaling \$30,833,000 and \$27,405,000 for the years ended December 31, 2007 and 2006, respectively. These totals include donated services valued at \$9,311,000 and \$7,871,000 for the years ended December 31, 2007 and 2006, respectively.

AARP contributions represented approximately 20% and 18% of the Foundation's revenue for the years ended December 31, 2007 and 2006, respectively.

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Notes to Consolidated Financial Statements
December 31, 2007 and 2006

b) Postretirement Health Benefits Obligation

The Foundation participates in the AARP postretirement health benefit program. A resolution in 1997 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.

c) Office Space

Under a continuing operations agreement associated with the Foundation's condominium units located within the AARP headquarters building, certain shared facilities costs are billed to the Foundation by AARP, including utilities, maintenance, and security and building management. These costs were approximately \$602,000 and \$527,000 for the years ended December 31, 2007 and 2006, respectively.

A portion of the Foundation's condominium space is occupied by Legal Counsel for the Elderly (LCE), an affiliate of AARP. LCE is exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code. A portion of the shared occupancy costs, described above, was attributable to the space occupied by LCE. This portion of the costs amounted to approximately \$90,000 and \$105,000 in the years ended December 31, 2007 and 2006, respectively. The space and associated shared facilities costs were donated to LCE as an in-kind contribution.

d) Intercompany Grant Awards

The Foundation has awarded grants to AARP for charitable programs. Expenses of \$2,534,000 and \$2,377,000 were recognized for the years ended December 31, 2007 and 2006, respectively. Approximately \$1,119,000 and \$1,754,000 of the recognized amounts remained unpaid as of December 31, 2007 and 2006, 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 advanced \$1,550,000 for direct expenses of the Tax-Aide program, which is expected to be repaid when the program terminates.

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

7. Property and Equipment

Property and equipment is summarized as follows at December 31, 2007 and 2006 (in thousands):

| | 2007 | 2006 |
|-----------------------------|-------------|-------------|
| Land | \$ 4,440 | \$ 4,440 |
| Building and improvements | 18,265 | 17,964 |
| Equipment | 287 | 9 |
| Accumulated depreciation | (2,302) | (1,566) |
| Property and equipment, net | \$ 20,690 | \$ 20,847 |

8. Employee Healthcare Benefits

The Foundation provides certain healthcare and other welfare benefits for active employees as a participating employer in the AARP Employees' Welfare Plan. The Welfare Plan receives contributions from all participating employers to provide benefits, based on expected costs of providing these benefits. Expenses incurred by the Foundation for healthcare benefits were \$1,356,000 and \$1,428,000 for the years ended December 31, 2007 and 2006, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2007 and 2006 was approximately \$306,000 and \$324,000, 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, 2007 and 2006, respectively, were 3.48% and 3.9%. Total interest expense incurred for the years ended December 31, 2007 and 2006 was approximately \$909,000 and \$863,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

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 Series 2004 Bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of each bond outstanding.

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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>2007</u> | <u>2006</u> |
|--|------------------|------------------|
| Department of Labor | \$ 73,381 | \$ 72,758 |
| Internal Revenue Service | 3,396 | 3,901 |
| Department of Housing and Urban Development | 342 | 2,815 |
| Department of Health and Human Services | 638 | 419 |
| Corporation for National and Community Service | 303 | 201 |
| State Agencies | 435 | 511 |
| Corporations and Foundations | <u>3,023</u> | <u>865</u> |
| Total grant revenue | <u>\$ 81,518</u> | <u>\$ 81,470</u> |

11. Program Services

During the years ended December 31, 2007 and 2006, the Foundation's programs were as follows:

Senior Community Service Employment Program (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 48% and 49% of the Foundation's revenue for the years ended December 31, 2007 and 2006, respectively. The current federal grant to the Foundation expires on June 30, 2008.

Tax Counseling for the Elderly (Tax-Aide) provides volunteer services for federal income tax preparation assistance to low and moderate income persons throughout the country, with special attention to those 60 and older. The Tax-Aide project is funded by AARP and the Internal Revenue Service. The current federal grant to the Foundation expires on September 30, 2008.

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, consumer, legal, and housing issues.

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Management anticipates that the SCSEP and Tax-Aide 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.

12. Defined-Benefit Pension Plan

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

In December 2006, the Benefits Committee of AARP approved an amendment to the Plan, which included clarification that the Plan is a single-employer plan, sponsored by AARP. As a result, AARP has assumed all financial and fiduciary obligations for future funding of benefits related to the Foundation's participants in the Plan.

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

In 2006, the transfer of the actuarially-determined liability from the Foundation to AARP resulted in a one-time increase in the Foundation's unrestricted net assets of approximately \$6,562,000.

There were no employer contributions by the Foundation to the Plan in 2007 and 2006. The Foundation will not be required to make a contribution to the pension plan in 2008. However, supplemental contributions may be made that are not estimable at this time.

13. 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 current law.

Employer contributions totaled \$682,000 and \$495,000 for the years ended December 31, 2007 and 2006, respectively.

AARP Foundation
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14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of December 31, 2007 and 2006 (in thousands):

| | <u>2007</u> | <u>2006</u> |
|------------------------------|-------------------------|-------------------------|
| Purpose-restricted: | | |
| SCSEP | \$ 3,444 | \$ 3,444 |
| Other programs | 1,492 | 2,511 |
| Fundraising | <u>2,669</u> | <u>3,565</u> |
| Total purpose-restricted | 7,605 | 9,520 |
| Time-restricted | <u>2,674</u> | <u>2,986</u> |
| Total temporarily-restricted | <u><u>\$ 10,279</u></u> | <u><u>\$ 12,506</u></u> |

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors during 2007 and 2006, as follows (in thousands):

| | <u>2007</u> | <u>2006</u> |
|------------------------------|------------------------|------------------------|
| Purpose-restricted releases | | |
| Other programs | 1,024 | 2,312 |
| Fundraising | <u>895</u> | <u>1,083</u> |
| Total purpose-restricted | 1,919 | 3,395 |
| Time-restricted | <u>419</u> | <u>400</u> |
| Total temporarily-restricted | <u><u>\$ 2,338</u></u> | <u><u>\$ 3,795</u></u> |

AARP Foundation
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

15. 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.

The Foundation leases office space in a number of states to facilitate local delivery of the SCSEP program, under operating leases with various lease terms. Total rent incurred under operating leases was approximately \$1,254,000 and \$1,218,000 in 2007 and 2006, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2007 are (in thousands):

| | |
|------|----------|
| 2008 | 674 |
| 2009 | 431 |
| 2010 | 210 |
| 2011 | 98 |
| 2012 | 32 |
| | \$ 1,445 |

AARP Foundation
Schedule of Functional Expenses
For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended December 31, 2006)

| | Program Services | | | | Supporting Services | | | 2007 Total Expenses | 2006 Total Expenses | |
|------------------------------------|------------------|-----------------------------------|-------------------|-------------------|------------------------------|------------------|---------------------------|---------------------------|---------------------------|---------------------------------|
| | SCSEP | Tax Counseling for the Elderly | Legal Advocacy | Other Programs | Total Program Services | Fundraising | Management and General | | | Total Supporting Services |
| Expenses | | | | | | | | | | |
| Enrollee wages & benefits | \$ 61,303 | \$ - | \$ - | \$ - | \$ 61,303 | \$ - | \$ - | \$ - | \$ 61,303 | \$ 58,061 |
| In-kind services | 14,615 | 988 | 501 | 805 | 16,909 | 2,211 | 4,409 | 6,620 | 23,529 | 22,190 |
| Employees and Temporary Labor | 7,997 | 1,125 | 3,475 | 4,350 | 16,947 | 2,943 | 1,675 | 4,618 | 21,565 | 20,517 |
| Printing & postage | 314 | 702 | 42 | 1,109 | 2,167 | 7,860 | 19 | 7,879 | 10,046 | 9,789 |
| Promotion | 150 | 4 | 45 | 370 | 569 | 1,029 | 15 | 1,044 | 1,613 | 1,686 |
| Volunteer-related | 2 | 5,064 | - | 107 | 5,173 | 3 | 55 | 58 | 5,231 | 5,037 |
| Grant awards | - | - | 15 | 5,291 | 5,306 | - | 20 | 20 | 5,326 | 5,882 |
| Meetings & travel | 707 | 43 | 60 | 775 | 1,585 | 632 | 92 | 724 | 2,309 | 2,198 |
| Occupancy | 1,351 | 78 | 138 | 263 | 1,830 | 105 | 55 | 160 | 1,990 | 2,010 |
| Telecommunications | 476 | 31 | 19 | 85 | 611 | 29 | 9 | 38 | 649 | 569 |
| Office supplies & equipment | 824 | 1,349 | 19 | 281 | 2,473 | 48 | 31 | 79 | 2,552 | 3,158 |
| Consulting & professional services | 997 | 474 | 256 | 1,968 | 3,695 | 1,190 | 378 | 1,568 | 5,263 | 3,852 |
| Data processing | 362 | 37 | 1 | 21 | 421 | 542 | 2 | 544 | 965 | 1,290 |
| Depreciation & amortization | 65 | 76 | 161 | 262 | 564 | 124 | 65 | 189 | 753 | 737 |
| Insurance & taxes | 38 | 41 | 98 | 142 | 319 | 67 | 119 | 186 | 505 | 484 |
| Interest | 79 | 92 | 195 | 318 | 684 | 148 | 78 | 226 | 910 | 863 |
| Miscellaneous | 181 | 46 | 31 | 31 | 289 | 121 | 97 | 218 | 507 | 2,099 |
| Total expenses | \$ 89,461 | \$ 10,150 | \$ 5,056 | \$ 16,178 | \$ 120,845 | \$ 17,052 | \$ 7,119 | \$ 24,171 | \$ 145,016 | \$ 140,422 |

See accompanying independent auditor's report.