



AARP Foundation Financial Statements

**AARP Foundation
Financial Statements
December 31, 2002**

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Independent Auditors' Report

The Board of Directors of AARP Foundation:

We have audited the accompanying statement of financial position of the AARP Foundation as of December 31, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the AARP Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AARP Foundation as of December 31, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, D.C.
April 11, 2003

KPMG LLP

AARP Foundation Statement of Financial Position December 31, 2002

(in thousands)

Assets:

Cash and cash equivalents	\$4,969
Grants receivable (note 3)	6,165
Due from affiliates (note 6)	3,627
Prepaid expenses and other assets	355
Total assets	\$15,116

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$3,907
Deferred revenue	357
Accrued pension liability (note 7)	4,060
Advance from AARP (note 6)	1,550
Total liabilities	9,874

Net Assets:

Unrestricted	2,891
Temporarily restricted (note 6)	2,351
Total net assets	5,242
Contingencies (notes 6 and 10)	
Total liabilities and net assets	\$15,116

See accompanying notes to financial statements

AARP Foundation Statement of Activities Year Ended December 31, 2002*(in thousands)*

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Government grants (note 4)	\$53,747	\$ –	\$53,747
AARP contributions (note 6)	11,581	2,250	13,831
SCSEP host agency in-kind contributions	5,203	–	5,203
Investment income	41	–	41
Litigation settlements	1,042	–	1,042
Other (note 11)	821	–	821
Net assets released from restrictions	2,807	(2,807)	–
Total revenues	\$75,242	(557)	74,685
Expenses:			
Program services (note 5):			
Senior Community Service Employment Program	55,764	–	55,764
Tax Counseling for the Elderly	4,616	–	4,616
Litigation services	4,636	–	4,636
Other	2,442	–	2,442
Total program services	67,458	–	67,458
Supporting services:			
Management and general	5,955	–	5,955
Fundraising	200	–	200
Total supporting services	6,155	–	6,155
Total expenses	73,613	–	73,613
Changes in net assets	1,629	(557)	1,072
Net assets , beginning of year	1,262	2,908	4,170
Net assets , end of year	\$2,891	\$2,351	\$5,242

See accompanying notes to financial statements.

AARP Foundation Statement of Cash Flows Year Ended December 31, 2002*(in thousands)*

Cash flows from operating activities:	
Change in net assets	\$1,072
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in grants receivable	(1,678)
Decrease in due from affiliates	1,279
Increase in prepaid expenses and other assets	(153)
Decrease in accounts payable and accrued expenses	(394)
Increase in deferred revenue	116
Increase in accrued pension liability	1,150
Total adjustments	320
Net cash provided by operating activities	1,392
Cash and cash equivalents , beginning of year	3,577
Cash and cash equivalents , end of year	\$4,969

See accompanying notes to financial statements.

AARP Foundation Notes to Financial Statements

December 31, 2002

1. Description of Organization

The AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation to engage in the study and discussion of the problems of aging persons. The AARP Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is a nonpartisan charitable organization.

The AARP Foundation receives funding principally from the federal government, AARP, and private foundations. The Foundation's Board of Directors is composed of five members appointed by AARP's Board of Directors.

2. Summary of Significant Accounting Policies**a) Basis of Presentation**

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of

donor-imposed restrictions. Accordingly, net assets of the AARP Foundation are classified and reported as follows:

Unrestricted—Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted—Net assets subject to donor-imposed stipulations that may or will be met either by actions of the AARP Foundation and/or the passage of time.

Expirations of temporary restrictions recognized 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.

b) Use of Estimates

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

c) Cash Equivalents

All short-term deposits and investments with original maturities of three months or less are reported as cash equivalents.

d) Government Grants

Government grants are reported as exchange transactions and, accordingly, are recognized to the extent allowable expenses are incurred under program agreements. Amounts recorded as grants receivable represent grant program expenses incurred in advance of the receipt of funds. Funds received in advance of grant

program expenses are recorded as deferred revenue in the statement of financial position.

e) Contributions

The AARP Foundation reports contributions as revenue when received or pledged by the donor. The AARP Foundation reports restricted contributions as temporarily restricted support if such gifts are restricted by the donor to a specific program or include an implied time restriction. For restricted contributions where the restriction is met during the year received, the AARP Foundation recognizes the contributions as unrestricted.

f) Contributed Services

The AARP Foundation receives donated services of many volunteers. These in-kind contributions are not recorded in the financial statements as they do not meet the requirements for recognition under accounting principles generally accepted in the United States.

The AARP Foundation also receives donated services of host agency site supervisors under its Senior Community Service Employment Program (SCSEP). These contributed services meet the criteria for recognition and are recorded at their estimated fair values as both revenues and expenses in the statement of activities. In addition, AARP contributes certain services and assets to the AARP Foundation (see note 6).

g) Litigation Settlements

Settlements of lawsuits in which AARP Foundation attorneys participate as co-counsel are recorded as revenue when cash from such settlements is received.

3. Grants Receivable

Grants receivable consist of amounts due from the following sources as of December 31, 2002

(in thousands)

Department of Labor—Title V (SCSEP)	\$5,208
Internal Revenue Service	637
Department of Housing and Urban Development	179
Department of Justice	105
Department of Health and Human Services	36
Total grants receivable	\$6,165

4. Government Grants

Government grants from the following sources were recognized in the year ended December 31, 2002

(in thousands)

Department of Labor - Title V (SCSEP)	\$49,013
Internal Revenue Service	3,202
Department of Housing and Urban Development	655
State of Colorado	316
Department of Health and Human Services	306
Department of Justice	255
Total government grants	\$53,747

5. Program Services

During 2002, the AARP Foundation’s programs were as follows:

Senior Community Service Employment Program (SCSEP)

provides temporary, subsidized employment for persons 55 and older whose income is at or below 125% of the federal poverty level. The Department of Labor, under the authority of the Older Americans Act of 1965, has renewed this program annually since 1969. The Department of Labor current commitment expires in June 2003.

Tax Counseling for the Elderly (Tax-Aide)

provides volunteer assistance for federal income tax preparation to low- and moderate-income older persons throughout the country. In the 2002 tax season, approximately 1.8 million older persons were assisted. The Internal Revenue Service current commitment expires in September 2003.

▪ **Litigation Services** provides legal representation in litigation to protect and preserve the rights of Americans over age 50 and supports these rights through amicus curiae (“friend of the court”) briefs. The legal advocacy program focuses on widespread practices or policies in industry, business, or government that are detrimental to Americans over age 50.

▪ **Other programs** provide information, research, training, and technical assistance to older persons and their service providers on various matters including health, legal, and housing issues.

The continuation of grant-funded programs for calendar year 2003 and beyond is subject to future funding from sponsoring agencies.

6. Related-Party Transactions

The AARP Foundation obtains services from AARP under a contractual agreement covering personnel costs and other direct and indirect costs. In 2002, pursuant to that agreement, AARP made contributions totaling \$13,831,000 including donated services valued at \$5,771,000 and amounts intended to fund future period operations of \$1,207,000. These contributions represented approximately 19% of AARP Foundation’s 2002 revenues. Contributions restricted for future period operations are classified as temporarily restricted net assets. At December 31, 2002, temporarily restricted net assets consisted principally of AARP contributions for use in future periods.

The advance from AARP is a permanent advance for direct expenses of the Tax-Aide program. Upon discontinuance of the Tax-Aide program, the amount will be repaid to AARP.

As part of an arrangement between AARP and the AARP Foundation, AARP has assumed responsibility for the estimated postretirement health benefits obligation of the AARP Foundation’s employees, which totaled \$9,102,000 at December 31, 2002. AARP has agreed to fund this liability in future years as claims are received from eligible AARP Foundation retirees. This arrangement is subject to periodic renegotiation and may be discontinued at AARP’s option.

The AARP Foundation utilizes office space at AARP’s national headquarters for which it pays its allocated share of rent, based upon actual square footage occupied, to AARP Properties LLC, a wholly owned subsidiary of AARP. Rent expense for the year ended December 31, 2002 was approximately \$1,054,000.

Legal Counsel for the Elderly, Inc. (LCE), a District of Columbia not-for-profit corporation, is affiliated with the AARP Foundation and AARP. LCE, a tax-exempt organization under Section 501(c)(3) of the IRC, publishes manuals, conducts seminars on issues affecting older persons, and operates legal services and long-term care ombudsman programs. The AARP Foundation and AARP, under a contractual labor agreement with LCE, are responsible for the salaries and fringe benefits, including retirement benefits, of AARP Foundation and AARP employees who provide services to carry out LCE’s programs. These costs are reimbursed in full to the AARP Foundation by LCE and in 2002 amounted to \$1,798,000.

7. Defined Benefit Pension Plan

The AARP Foundation participates in a multiple-employer noncontributory defined benefit pension plan through the AARP and RPS Employees’ Pension Trust (the Pension Trust). AARP, AARP Services, Inc. (ASI) (a wholly owned subsidiary of AARP), and Retired Persons Services (RPS) (a separate unconsolidated entity) and its subsidiaries are the other participating employers in the Pension Trust. The Pension Trust covers all employees after they meet specified eligibility requirements.

Plan assets, administrative expenses, and expected contributions have been allocated to all participating employers in proportion to the

projected benefit obligation. The general funding policy for AARP, ASI and the AARP Foundation is to contribute an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act, as actuarially determined, calculated on a level percentage of payroll costs basis.

There were no required AARP Foundation contributions to the Pension Trust in 2002.

The following table sets forth the plan’s funded status at September 30, 2002 (the actuarial measurement date) and the amounts recognized in the financial statements as of and for the year ended December 31, 2002 (in thousands):

Fair value of plan assets, primarily invested in common stocks	\$14,237
Projected benefit obligation	(20,848)
Funded status	\$(6,611)
Accrued pension liability	\$(4,060)
Net periodic pension expense	\$1,150
Benefits paid	\$519
Assumptions used in the actuarial valuation as of September 30, 2002:	
Discount rate	6.50%
Expected long-term rate of return on plan assets	8.50%
Future salary increases	4.00%

8. Health Care Benefits

Effective January 1, 2002, the AARP Employees' Welfare Trust ("Welfare Trust") was established to provide certain health care benefits for active employees formerly provided through the AARP and RPS Employees' Welfare Plan. The Welfare Trust receives contributions from participating affiliate employers to fund expected current costs of the Welfare Trust. For the year ended December 31, 2002, the AARP Foundation's contribution to the Welfare Trust for current health care benefits was \$1,319,000.

9. Defined Contribution Plan

The AARP Foundation participates in a multiple-employer defined contribution plan through the AARP and RPS Employees' 401(k) Plan (401(k) Plan). AARP, ASI and RPS and its subsidiaries are the other participating employers in 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 with the AARP Foundation.

AARP Foundation makes contributions to the 401(k) Plan for its employees. AARP Foundation matches 100 percent of the first 3 percent and 50 percent of the next 2 percent of employee compensation up to the maximum limits allowed by current law.

In 2002, the AARP Foundation contributed \$290,000 to the 401(k) plan.

10. Contingencies

The AARP Foundation is a party to various claims and potential legal actions. Management asserts, based upon advice of counsel, that the disposition of these matters will have no material adverse effect on the financial position of the AARP Foundation.

11. Termination of the Andrus Foundation

On July 26, 2002 the Andrus Foundation Board of Directors approved a plan to dissolve and merge the assets, liabilities and operations of the Andrus Foundation with the AARP Foundation. The merger was subsequently approved by the AARP Foundation Board of Directors and was effective on March 4, 2003. As part of the planned merger, the Andrus Foundation transferred cash of \$390,000 to the AARP Foundation to fund the start-up of the AARP Foundation's fundraising efforts. This transfer is included as a component of other revenues in the accompanying statement of activities. *