



**AARP FOUNDATION**

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)



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, 2009 and 2008, 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 and subsidiary as of December 31, 2009 and 2008, and the changes in their net assets and their 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 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 17, 2010

**AARP FOUNDATION**

Consolidated Statements of Financial Position

December 31, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 10,497	\$ 13,772
Contributions receivable (note 4)	666	1,242
Grants receivable (note 5)	12,403	6,461
Due from affiliates (note 6)	446	2,942
Prepaid expenses and other assets	1,842	1,877
Investments (note 3)	53,615	52,307
Property and equipment, net (note 7)	19,119	19,926
Charitable gift annuity investments (note 3)	8,196	7,560
Total assets	\$ 106,784	\$ 106,087
<b>Liabilities:</b>		
Accounts payable and accrued expenses (note 8)	\$ 6,944	\$ 6,430
Deferred revenue	9,644	9,522
Due to affiliates (note 6)	4,316	3,516
Charitable gift annuities payable	6,033	6,141
Bonds payable (note 9)	25,000	25,000
Total liabilities	51,937	50,609
Commitments and contingencies (notes 6, 8, 14 and 17)		
<b>Net assets:</b>		
Unrestricted:		
Undesignated	17,449	20,105
Board designated quasi-endowment (note 16)	13,419	11,115
Board designated operating reserves	18,122	16,952
Total unrestricted	48,990	48,172
Temporarily restricted (note 15)	5,857	7,306
Total net assets	54,847	55,478
Total liabilities and net assets	\$ 106,784	\$ 106,087

See accompanying notes to consolidated financial statements.

**AARP FOUNDATION**

Consolidated Statements of Activities

Years ended December 31, 2009 and 2008

(In thousands)

	2009			2008		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating revenue:						
Grant revenue (note 10)	\$ 103,106	\$ —	\$ 103,106	\$ 88,665	\$ —	\$ 88,665
Contributions (note 6)	13,490	1,304	14,794	36,343	202	36,545
In-kind contributions (notes 1(h) and 6)	25,857	—	25,857	25,122	—	25,122
Investment income designated for operations (note 3)	747	—	747	709	—	709
Other	440	—	440	399	—	399
Net assets released from restrictions (note 15)	2,753	(2,753)	—	3,175	(3,175)	—
Total operating revenue	146,393	(1,449)	144,944	154,413	(2,973)	151,440
Expenses:						
Program services (notes 11 and 12):						
WorkSearch	109,517	—	109,517	98,717	—	98,717
Tax-Aide	11,408	—	11,408	11,641	—	11,641
Legal Advocacy	4,653	—	4,653	5,491	—	5,491
Other programs	13,080	—	13,080	13,878	—	13,878
Total program services	138,658	—	138,658	129,727	—	129,727
Supporting services:						
Fundraising (note 12)	11,734	—	11,734	15,862	—	15,862
Management and general	6,228	—	6,228	6,465	—	6,465
Total supporting services	17,962	—	17,962	22,327	—	22,327
Total expenses	156,620	—	156,620	152,054	—	152,054
Change in net assets from operations	(10,227)	(1,449)	(11,676)	2,359	(2,973)	(614)
Other changes in net assets:						
Investment income (loss) in excess of amounts designated for operations (note 3)	11,580	—	11,580	(20,151)	—	(20,151)
Change in value of charitable gift annuities	(535)	—	(535)	(291)	—	(291)
Change in net assets	818	(1,449)	(631)	(18,083)	(2,973)	(21,056)
Net assets, beginning of year	48,172	7,306	55,478	66,255	10,279	76,534
Net assets, end of year	\$ 48,990	\$ 5,857	\$ 54,847	\$ 48,172	\$ 7,306	\$ 55,478

See accompanying notes to consolidated financial statements.

**AARP FOUNDATION**

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands)

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Change in net assets	\$ (631)	\$ (21,056)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	807	805
Amortization of debt issuance costs	17	17
Net realized and unrealized (gains) losses on investments	(9,553)	22,683
Change in value of charitable gift annuities	535	291
Changes in operating assets and liabilities:		
Contributions receivable	576	1,432
Grants receivable	(5,942)	352
Due from affiliates	2,496	3,210
Prepaid expenses and other assets	18	(406)
Accounts payable and accrued expenses	514	(5,456)
Deferred revenue	122	5,075
Due to affiliates	800	(176)
Charitable gift annuities payable	(643)	(586)
Net cash (used in) provided by operating activities	(10,884)	6,185
Cash flows from investing activities:		
Purchase of property and equipment	—	(41)
Purchase of investments	(6,670)	(9,890)
Proceeds from sales and maturities of investments	14,279	7,577
Net cash provided by (used in) investing activities	7,609	(2,354)
Net (decrease) increase in cash and cash equivalents	(3,275)	3,831
Cash and cash equivalents, beginning of year	13,772	9,941
Cash and cash equivalents, end of year	\$ 10,497	\$ 13,772
Cash paid for interest	\$ 111	\$ 592

See accompanying notes to consolidated financial statements.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### (1) Description of Organization

The AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. The AARP Foundation is 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 (IRC) 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 IRC.

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 nonprofit organization qualified under Section 501(c)(3) of the IRC 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 IRC.

#### (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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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(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. Subsequent changes to the present value of annuity payments are reported as change in value of charitable gift annuities on the statement of activities.

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. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows, based on appropriate

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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**

Grant revenue is recognized to the extent allowable expenses are incurred. Amounts reported as grants receivable represent grant expenses incurred in advance of the receipt of funds. Grant funds received in advance 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 \$15,611,000 and \$14,920,000 were recognized for the years ended December 31, 2009 and 2008, 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 2009 or 2008.

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(k) Measure of Operations**

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

**(l) 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 establishes 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 the Foundation's assumptions (unobservable inputs). The Foundation 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.

The Foundation uses quoted values and other data provided by a nationally recognized independent pricing service (pricing service) as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities based upon its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

Securities with fixed maturities (debt securities) other than U.S. Treasury securities generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are included in the debt securities amount disclosed in Level 2 of the hierarchy. The estimated values of U.S. Treasury securities are

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

included in the debt securities amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The Foundation's equity securities trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1.

The Foundation invests in retail mutual funds, which are reported as either equity securities or fixed income securities, depending on the nature of the underlying assets in the funds. These funds trade on a daily basis and the net asset value of these funds is available to the public. Accordingly, these retail funds are reported as level 1.

The Foundation invests in several institutional mutual funds. These funds are not available to retail investors. These funds do not usually have daily purchases and redemptions. The fair value estimates of such institutional mutual funds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such funds as provided by the pricing service are included in the amount disclosed in Level 2.

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 nonfinancial items that are recorded at fair value on a recurring basis.

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

### (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 \$49,979,000 and \$44,892,000 at December 31, 2009 and 2008, respectively.

Investments, including amounts held for charitable gift annuities, are classified as follows, under the definitions in note 2(1), at December 31, 2009 (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Equity securities	\$ 10,898	\$ —	\$ 10,898
Fixed income securities	2,674	3,530	10,729
United States government and agency obligations	511	—	511
Mortgage-backed securities	—	916	916
Institutional mutual funds – fixed income	—	24,654	24,654
Institutional mutual fund – equity	—	13,853	13,853
Cash and cash equivalents	5,025	—	250
Total	\$ 19,108	\$ 42,953	\$ 61,811

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Investments, including amounts held for charitable gift annuities, are classified as follows, under the definitions in note 2(l), at December 31, 2008 (in thousands):

	<u>Level 1</u>		<u>Level 2</u>		<u>Total</u>
Equity securities	\$ 10,375	\$	—	\$	10,375
Fixed income securities	9,834		3,346		13,180
United States government and agency obligations	770		—		770
Mortgage-backed securities	—		4,759		4,759
Institutional mutual funds – fixed income	—		12,048		12,048
Institutional mutual fund – equity	—		18,235		18,235
Cash and cash equivalents	500		—		500
Total	<u>\$ 21,479</u>	\$	<u>38,388</u>	\$	<u>59,867</u>

Investment income (loss) for the years ended December 31, 2009 and 2008 is summarized as follows (in thousands):

	<u>2009</u>		<u>2008</u>
Interest and dividend income	\$ 2,774	\$	3,241
Net realized and unrealized gains (losses)	9,553		(22,683)
Total	<u>\$ 12,327</u>	\$	<u>(19,442)</u>
	<u>2009</u>		<u>2008</u>
Investment income designated for operations	\$ 747	\$	709
Investment income (loss) in excess of amounts designated for operations	11,580		(20,151)
Total	<u>\$ 12,327</u>	\$	<u>(19,442)</u>

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(4) Contributions Receivable**

Contributions receivable as of December 31, 2009 and 2008 are expected to be received as follows (in thousands):

	<b>2009</b>		<b>2008</b>
Within one year	\$ 250	\$	650
Between two and five years	250		500
Thereafter	182		152
	682		1,302
Unamortized discount (4 – 7%)	(16)		(60)
Net contributions receivable	\$ 666	\$	1,242

**(5) Grants Receivable**

Grants receivable consist of amounts due from the following sources as of December 31, 2009 and 2008 (in thousands):

	<b>2009</b>		<b>2008</b>
Department of Labor	\$ 10,366	\$	4,507
Internal Revenue Service	1,263		1,434
Other	774		520
Total	\$ 12,403	\$	6,461

**(6) Related-Party Transactions**

**(a) Contributions**

AARP made cash contributions to the Foundation totaling \$587,000 and \$21,577,000 for the years ended December 31, 2009 and 2008, respectively, and contributed donated services valued at \$10,246,000 and \$10,116,000 for the years ended December 31, 2009 and 2008, respectively.

AARP contributions represented approximately 8% and 21% of the Foundation's operating revenue for the years ended December 31, 2009 and 2008, respectively.

**(b) Postretirement Health Benefits Obligation**

The Foundation participates in the AARP post-retirement 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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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(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, including utilities, maintenance, security and building management. These costs were approximately \$566,000 and \$556,000 in the years ended December 31, 2009 and 2008, respectively

A portion of the Foundation's office 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 IRC. The costs associated with this space were approximately \$350,000 and \$429,000 for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2008, the facilities were donated by the Foundation to LCE as an in-kind contribution.

**(d) Grants to AARP**

The Foundation has awarded grants to AARP to further the Foundation's charitable purposes. Expenses of \$2,968,000 and \$3,154,000 were recognized for the years ended December 31, 2009 and 2008, respectively. Approximately \$726,000 and \$1,086,000 of the recognized amounts remained unpaid as of December 31, 2009 and 2008, 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, at the inception of the Tax Aide program, AARP advanced \$1,550,000 for direct expenses of the 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, 2009 and 2008 (in thousands):

	<b>2009</b>	<b>2008</b>
Land	\$ 4,440	\$ 4,440
Building and improvements	18,265	18,265
Equipment	328	328
Accumulated depreciation	(3,914)	(3,107)
Property and equipment, net	\$ 19,119	\$ 19,926

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### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

#### **(8) Employee Health Care Benefits**

The Foundation participates with other AARP affiliates in the AARP Employees' Welfare Plan, which provides certain health care 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 health care benefits were \$2,112,000 and \$1,654,000 for the years ended December 31, 2009 and 2008, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2009 and 2008 was approximately \$290,000 and \$285,000, 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, 2009 and 2008, respectively, were 0.25% and 1.20%. Total interest expense incurred for the years ended December 31, 2009 and 2008 was approximately \$104,000 and \$540,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

The fair value of the bonds approximates 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.

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

**(10) Grant Revenue**

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

	<b>2009</b>	\$	<b>2008</b>
Department of Labor	91,325	\$	79,349
Internal Revenue Service	5,208		4,084
Department of Housing and Urban Development	14		388
Department of Health and Human Services	163		362
State agencies	621		676
Corporations and foundations	5,775		3,806
Total	103,106	\$	88,665

**(11) Program Services**

During the years ended December 31, 2009 and 2008, 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. 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 63% and 53% of the Foundation's operating revenue for the years ended December 31, 2009 and 2008, respectively. The current federal grants to the Foundation expire on June 30, 2010.

*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 primarily funded by the Foundation and the Internal Revenue Service. The current federal grants to the Foundation expire on June 30, 2010 and September 30, 2010.

*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 asset protection, asset development, income generation and access to benefits.

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 2009 and 2008, 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>2009</u>	<u>2008</u>
Fundraising	\$ 1,757	\$ 3,664
Program Services	301	759
Total	<u>\$ 2,058</u>	<u>\$ 4,423</u>

**(13) Defined-Benefit Pension Plan**

The Foundation participates with other AARP affiliates in the AARP Employees' Pension Plan (the Plan), a single employer, non-contributory defined-benefit pension plan sponsored by AARP. 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. 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 2009 and 2008. The Foundation will not be required to make a contribution to the pension plan in 2010. 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. As part of a cost containment program, the Foundation suspended the employer match for the period April 1, 2009 through December 31, 2009. Matching contributions resumed on January 1, 2010.

Employer contributions totaled \$193,000 and \$607,000 for the years ended December 31, 2009 and 2008, respectively.

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**(15) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of December 31, 2009 and 2008 (in thousands):

	<b>2009</b>	<b>2008</b>
Purpose-restricted:		
SCSEP	\$ 3,444	\$ 3,444
Other programs	646	802
Fundraising	—	1,818
Total purpose-restricted	4,090	6,064
Time-restricted	1,767	1,242
Total	\$ 5,857	\$ 7,306

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors during 2009 and 2008, as follows (in thousands):

	<b>2009</b>	<b>2008</b>
Purpose-restricted releases:		
Other programs	\$ 285	\$ 915
Fundraising	1,818	852
Total purpose-restricted	2,103	1,767
Time-restricted	650	1,408
Total	\$ 2,753	\$ 3,175

**(16) Board-Designated Quasi-Endowment**

The Foundation Board has established a board-designated quasi-endowment fund, and has adopted a policy under which certain contributions 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. Assets of the quasi-endowment fund are invested in a prudent manner, in a broadly diversified portfolio spread over multiple asset classes.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

	<u>2009</u>	<u>2008</u>
Board-designated quasi-endowment, January 1	\$ 11,115	\$ 15,148
Interest and dividends	425	482
Realized and unrealized gains (losses)	2,130	(4,769)
Designations	496	963
Appropriation for spending	(747)	(709)
Board-designated quasi-endowment, December 31	<u>\$ 13,419</u>	<u>\$ 11,115</u>

#### (17) 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 the local delivery of its programs, under short-term operating leases with various lease terms. Total rent incurred under operating leases was approximately \$1,667,000 and \$1,438,000 for the years ended December 31, 2009 and 2008, respectively.

#### (18) Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were issued, March 17, 2010.

## AARP FOUNDATION

## Schedule of Functional Expenses

Year ended December 31, 2009

(with comparative totals for the year ended December 31, 2008)

(In thousands)

	Program services				Total program services	Supporting services			2009 Total expenses	2008 Total expenses
	WorkSearch	Tax-Aide	Legal Advocacy	Other programs		Fundraising	Management and general	Total supporting services		
Expenses:										
Enrollee wages and benefits	\$ 76,065	\$ —	\$ —	\$ —	\$ 76,065	\$ —	\$ —	\$ —	\$ 76,065	\$ 66,095
In-kind supervisory salaries	15,611	—	—	—	15,611	—	—	—	15,611	14,920
In-kind services from AARP and others	715	1,381	439	1,931	4,466	2,065	3,766	5,831	10,297	10,202
Compensation and temporary labor	9,660	1,344	3,397	3,155	17,556	2,201	1,800	4,001	21,557	20,868
Printing and postage	195	488	53	529	1,265	4,230	12	4,242	5,507	9,755
Promotion	94	—	—	202	296	286	14	300	596	639
Volunteers	32	6,163	—	108	6,303	1	36	37	6,340	5,971
Meetings and travel	863	32	23	141	1,059	77	43	120	1,179	1,783
Occupancy	1,621	94	99	320	2,134	97	52	149	2,283	2,129
Telecommunications	583	55	11	54	703	15	10	25	728	649
Office supplies and equipment	1,774	1,194	21	62	3,051	8	12	20	3,071	4,849
Consulting and professional services	977	391	304	647	2,319	2,018	163	2,181	4,500	5,128
Data processing	663	56	1	2	722	338	—	338	1,060	863
Depreciation and amortization	89	105	143	268	605	142	77	219	824	822
Insurance and taxes	51	54	73	136	314	72	122	194	508	492
Interest	11	19	17	32	79	17	9	26	105	541
Grant awards	286	—	51	4,746	5,083	—	10	10	5,093	5,405
Miscellaneous	227	32	21	747	1,027	167	102	269	1,296	943
Total expenses	\$ 109,517	\$ 11,408	\$ 4,653	\$ 13,080	\$ 138,658	\$ 11,734	\$ 6,228	\$ 17,962	\$ 156,620	\$ 152,054

See accompanying independent auditors' report.