CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

AARP

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, Inc.:

We have audited the accompanying consolidated statements of financial position of AARP, Inc. and affiliates (collectively, AARP) as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of AARP 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 AARP'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 AARP 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 adopted Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, in 2008.

KPMG LLP

March 30, 2009

AARP

Consolidated Statements of Financial Position

December 31, 2008 and 2007

(In thousands)

		2008	2007
Assets:			
Cash and cash equivalents (note 2(c))	$	472,006	325,154
Accounts receivable, net (note 5)		70,419	79,122
Prepaid expenses and other assets (note 8)		26,013	34,805
Prepaid pension asset (note 10)		—	4,789
Investments (note 4)		916,146	1,087,082
Property and equipment, net (note 6)		315,166	304,778
Total assets	$	1,799,750	1,835,730
Liabilities:			
Accounts payable and accrued expenses	$	100,030	143,680
Insurance premiums payable (note 3)		711,242	662,974
Deferred revenue and other liabilities		31,701	25,057
Deferred membership dues		435,597	388,280
Accrued pension liability (note 10)		113,764	—
Accrued postretirement health benefits (note 11)		69,823	67,808
Notes payable (note 7)		230,069	230,053
Total liabilities		1,692,226	1,517,852
Net assets:			
Unrestricted:			
Undesignated		17,186	101,481
Board designated (note 14)		81,348	205,461
Total unrestricted net assets		98,534	306,942
Temporarily restricted (note 15)		8,990	10,936
Total net assets		107,524	317,878
Total liabilities and net assets	$	1,799,750	1,835,730

See accompanying notes to consolidated financial statements.

AARP

Consolidated Statement of Activities

Year ended December 31, 2008

(In thousands)

	Unrestricted	Temporarily restricted	Total
Operating revenues:			
Membership dues	$ 249,314	—	249,314
Royalties (note 3)	652,701	—	652,701
Publications advertising	119,696	—	119,696
Grant revenue (note 9)	89,649	—	89,649
Program income	82,114	—	82,114
Contributions	41,113	879	41,992
Other operating income	19,683	—	19,683
Net assets released from restrictions	2,825	(2,825)	—
Operating revenue before investment loss	1,257,095	(1,946)	1,255,149
Investment loss (notes 3 and 4)	(175,063)	—	(175,063)
Total operating revenues	1,082,032	(1,946)	1,080,086
Operating expenses:			
Program services:			
Programs and field services	298,310	—	298,310
Publications	177,638	—	177,638
Member services	284,086	—	284,086
Legislation and research	58,844	—	58,844
Total program services	818,878	—	818,878
Supporting services:			
Membership development	114,096	—	114,096
Management and general	204,879	—	204,879
Total supporting services	318,975	—	318,975
Total operating expenses	1,137,853	—	1,137,853
Change in net assets from operations	(55,821)	(1,946)	(57,767)
Other income (expenses):			
Investment loss from sinking fund (notes 4 and 7)	(22,513)	—	(22,513)
Income taxes (note 8)	(17,427)	—	(17,427)
Charges other than net periodic benefit cost (notes 10 and 11)	(106,239)	—	(106,239)
Change in net assets before effect of adoption of measurement provisions of FASB Statement No. 158	(202,000)	(1,946)	(203,946)
Effect of adoption of measurement provisions of FASB Statement No. 158 (note 2)	(6,408)	—	(6,408)
Change in net assets	(208,408)	(1,946)	(210,354)
Net assets, beginning of year	306,942	10,936	317,878
Net assets, end of year	$ 98,534	8,990	107,524

See accompanying notes to consolidated financial statements.

AARP

Consolidated Statement of Activities

Year ended December 31, 2007

(In thousands)

	Unrestricted	Temporarily restricted	Total
Operating revenues:			
Membership dues	$ 249,353	—	249,353
Royalties (note 3)	497,635	—	497,635
Publications advertising	121,518	—	121,518
Grant revenue (note 9)	82,431	—	82,431
Program income	90,850	—	90,850
Contributions	42,353	6,878	49,231
Other operating income	2,938	—	2,938
Net assets released from restrictions	888	(888)	—
Operating revenue before investment income	1,087,966	5,990	1,093,956
Investment income (notes 3 and 4)	79,951	—	79,951
Total operating revenues	1,167,917	5,990	1,173,907
Operating expenses:			
Program services:			
Programs and field services	302,518	—	302,518
Publications	184,572	—	184,572
Member services	294,631	—	294,631
Legislation and research	60,581	—	60,581
Total program services	842,302	—	842,302
Supporting services:			
Membership development	112,960	—	112,960
Management and general	204,079	—	204,079
Total supporting services	317,039	—	317,039
Total operating expenses	1,159,341	—	1,159,341
Change in net assets from operations	8,576	5,990	14,566
Other income (expenses):			
Investment income from sinking fund (notes 4 and 7)	4,479	—	4,479
Income taxes (note 8)	(8,902)	—	(8,902)
Change in net assets before effect of adoption of recognition provisions of FASB Statement No. 158	4,153	5,990	10,143
Effect of adoption of recognition provisions of FASB Statement No. 158 (note 2)	(580)	—	(580)
Change in net assets	3,573	5,990	9,563
Net assets, beginning of year	303,369	4,946	308,315
Net assets, end of year	$ 306,942	10,936	317,878

See accompanying notes to consolidated financial statements.

AARP

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(In thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (210,354)	9,563
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,606	24,846
Reserve for uncollectible accounts	248	(22)
Effect of adoption of FASB Statement No.158	6,408	580
Charges other than net periodic benefit cost	106,239	—
Net loss (gain) on investments	258,420	(19,554)
Deferred income taxes	1,447	(327)
Amortization of premium on investments	18	120
Changes in operating assets and liabilities:		
Cash and cash equivalents held as collateral	—	41,506
Accounts receivable	8,455	(24,173)
Prepaid expenses and other assets	7,345	1,325
Prepaid pension asset	4,789	4,570
Accounts payable and accrued expenses	(43,650)	2,139
Insurance premiums payable	48,268	50,331
Securities loan payable	—	(41,506)
Deferred revenue and other liabilities	6,644	2,484
Deferred membership dues	47,317	29,629
Accrued pension liability	(1,408)	—
Accrued postretirement health benefits	4,540	5,336
Total adjustments	482,686	77,284
Net cash provided by operating activities	272,332	86,847
Cash flows from investing activities:		
Purchases of property and equipment	(37,978)	(31,350)
Proceeds from sale and maturities of investments	995,414	1,304,705
Purchases of investments	(1,082,916)	(1,358,527)
Investment in joint venture	—	(33)
Net cash used in investing activities	(125,480)	(85,205)
Net increase in cash and cash equivalents	146,852	1,642
Cash and cash equivalents, beginning of year	325,154	323,512
Cash and cash equivalents, end of year	$ 472,006	325,154
Supplemental disclosures:		
Cash paid for interest	$ 12,979	14,623
Cash paid for income taxes	17,928	6,646

See accompanying notes to consolidated financial statements.

(1) Description of Organizations and Activities

(a) AARP, Inc.

AARP, Inc. was organized in 1958 as a District of Columbia not-for-profit corporation for the purpose of promoting the interests of older persons. AARP, Inc. is qualified as a tax-exempt social welfare organization under Section 501(c)(4) of the Internal Revenue Code (IRC). The mission of AARP, Inc. is to meet the needs and promote the independence, dignity, and purpose of persons 50 and older. The programs and activities of AARP, Inc. and its affiliates include education, advocacy, research, service programs, other social welfare activities, and charitable programs serving the needs of older persons.

AARP, Inc.'s programs, activities and operations are managed and supported primarily from its National Headquarters in Washington, D.C. AARP, Inc. and its affiliates also have offices in all fifty U.S. states, Washington, D. C., Puerto Rico, and the U. S. Virgin Islands, as well as a membership processing center located in Lakewood, California, and an advertising sales office in New York City.

(b) AARP Services, Inc. and AARP Financial, Inc.

AARP Services, Inc. (AARP Services) is a wholly owned taxable subsidiary of AARP, Inc., and was incorporated in Delaware in 1998. AARP, Inc. contracts with AARP Services to provide quality control of AARP intellectual property and other services relating to AARP, Inc. branded products and services available to AARP, Inc. members as part of their membership benefits.

AARP Services receives fees from AARP, Inc. for specific services including new product development, membership development, quality control services, and AARP Webplace design and maintenance. At the direction of AARP, Inc., AARP Services also receives a service provider relationship management fee, computed as a percentage of the royalty received by AARP, Inc.

AARP Financial, Inc. (AARP Financial) was incorporated in Delaware in September 2005, as a wholly owned taxable subsidiary of AARP Services. AARP Financial was formed to design, develop and manage AARP, Inc. branded financial services and related products. AARP Financial is also a Securities and Exchange Commission (SEC) registered investment adviser to the AARP family of mutual funds.

(c) AARP Insurance Plan

The AARP Insurance Plan (the Plan) is a grantor trust established by an Agreement and Declaration of Trust for the purpose of making group health insurance and other health-related products and services available to AARP, Inc. members. Insurance premiums collected by the Plan are paid directly by participants. At the direction of the third party insurance carriers, certain agreed upon deductions from the premiums are made for royalties payable to AARP, Inc. The Plan is administered by a board of trustees appointed by the Board of Directors of AARP, Inc. For the years ended December 31, 2008 and 2007, the Plan processed $6.3 billion and $5.9 billion, respectively, of premium payments from member participants.

(Continued)

(d) AARP Foundation and AARP Institute

The AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. The goals of the AARP Foundation are to lead positive social change, enhance the quality of life for all and deliver value to those 50 and older with emphasis on those at social and economic risk. The AARP Foundation, an AARP affiliate, is a qualified nonprofit organization under Section 501(c)(3) of the IRC and is therefore exempt from federal income taxes on its charitable operations. In addition, the AARP Foundation is a public charity as defined in Section 509(a)(1) of the IRC. The AARP Foundation receives funding principally from the federal government, AARP, Inc., 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 qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC. The AARP Foundation and the Institute are collectively referred to as the Foundation.

(e) Legal Counsel for the Elderly

Legal Counsel for the Elderly (LCE) was incorporated in the District of Columbia in 1980 for the purpose of providing free legal assistance and education to the elderly, primarily in the District of Columbia. LCE publishes manuals, conducts seminars on issues affecting the elderly, and operates legal services and long-term care ombudsman programs. LCE qualifies as a tax-exempt charitable organization under Section 501(c)(3) of the IRC. Funding for LCE is obtained primarily through contributions from AARP, Inc., foundations, corporations and individuals. LCE's Board of Directors is comprised of seven members appointed by AARP, Inc.'s Chief Executive Officer.

(f) Other Affiliates

AARP Global Network is a limited liability company (LLC) formed to promote and deliver social change through a joint international commitment to assure that people 50 and older are better able to live fulfilling lives with dignity and purpose. AARP Andrus Insurance Fund LLC, a single-member LLC with AARP, Inc. as its sole member, was formed in 2007 to serve as a self-funding mechanism for the deductible portion of certain AARP, Inc. insurance coverages with third party insurance carriers. Various special purpose taxable affiliated entities own and operate the AARP headquarters building located in Washington, D.C., the related parking garage facilities and buildings in California. These properties are primarily occupied by AARP, Inc. and its affiliates.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of the entities listed in note 1, collectively referred to as AARP.

All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements do not include the operations and accounts of over 2,500 local chapters of AARP that are organized and operated as separate entities. AARP neither controls nor derives beneficial economic interest from these organizations, as defined by U.S. generally accepted accounting principles.

AARP summarizes the costs of providing and managing its various programs and supporting activities on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain operating costs are allocated among the benefiting program and supporting services based on specific identification or reasonable allocation methodologies.

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

Unrestricted – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors for specific purposes.

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

(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. Although actual results could differ from these estimates, management does not believe that such differences will be material.

(c) Cash Equivalents

Investments with original maturities of three months or less are reported as cash equivalents. As of December 31, 2008 and 2007, $284,000,000 and $183,000,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

(d) Accounts Receivable

AARP estimates uncollectible accounts based on the aging of outstanding accounts receivable and management’s estimate of their net realizable values.

(e) Investments

Investments in debt securities, institutional mutual funds, equity securities and derivative financial instruments are measured and reported at fair value. The fair value of debt securities, institutional mutual funds, and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges.

Debt securities, institutional mutual funds, equity securities and derivative financial instruments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. AARP 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. In 2008 and 2007, the estimated fair values represented approximately 63% and 71%, respectively, of total investments. Changes in fair value are reported as investment income (loss) in the accompanying consolidated statements of activities.

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

(f) Property and Equipment

Property and equipment are stated at cost. Computer software is composed of external and certain qualifying internal costs related to software development. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered. If the sum of the undiscounted expected future cash flows is less than the carrying amount of an asset, AARP recognizes an impairment loss based on the amount by which the carrying amount of the asset exceeds the fair value of the asset. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to 30 years. Maintenance and repair costs are expensed as incurred.

(g) Membership Dues

Membership dues are deferred upon receipt and recognized as revenue ratably over the membership term of one, two, three or five years.

(h) Royalties

Royalties are received from AARP branded third party providers of member benefit programs, in return for the rights to use AARP's intellectual property (including name, logo and mailing list) in offering programs. These royalties are recognized as revenue as earned.

During 2008 and 2007, the service provider United Healthcare Corporation accounted for 63% and 57%, respectively, of total royalties earned.

(i) Publications Advertising

AARP sells advertising space in its major publications, which are provided to members without additional charge as part of their membership benefits. Advertising revenue is recognized as earned in the month of each publication's issue date.

(Continued)

(j) Grant Revenues

The Foundation and LCE report activities under grant agreements as exchange transactions. Accordingly, grant-related revenue is recognized to the extent that allowable expenses are incurred under program agreements. Amounts reported as grants receivable represent grant program expenses incurred in advance of the receipt of funds. Funds received in advance of incurred grant program expenses are reported as deferred revenue. Federal funds are only received by the Foundation and LCE.

The Foundation and LCE receive a majority of their revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the 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 or LCE.

(k) Program Income

AARP receives service fees from providers of and participants in member programs, for consulting and specific program services. These fees are recognized as earned.

(l) Contributions and Fundraising Expense

AARP reports contributions as revenue when received or pledged by the donor. Contributions are reported 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.

Contributions include cash received in support of both charitable and advocacy program activities. Charitable contributions are only received by the Foundation and LCE, while advocacy contributions are only received by AARP, Inc. Contributions also include in-kind contributed professional services totaling $14,920,000 and $14,283,000 for the years ended December 31, 2008 and 2007, respectively.

Fundraising expenses, which are reported as part of management and general expenses, were $25,972,000 and $27,448,000 for the years ended December 31, 2008 and 2007, respectively.

(m) Volunteer Services

AARP and its members benefit from the efforts of many volunteers. These in-kind contributions by volunteers are not recorded as revenue in the consolidated financial statements because they do not meet the requirements for recognition under U. S. generally accepted accounting principles.

(n) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in other income (expenses) in the period that includes the enactment date.

AARP adopted the provisions of Financial Accounting Standards Boards (FASB) Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. FIN 48 prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on AARP's consolidated financial statements. AARP does not believe that there are any unrecognized tax benefits/liabilities that should be recorded.

(o) Financial Instruments

At December 31, 2008 and 2007, the carrying value of financial instruments such as cash equivalents, accounts receivable, accounts payable and variable rate debt approximated their fair value, based on the short-term maturities or floating interest rates of these instruments. The fair values of investments, notes payable and fixed rate debt (with related swap agreements) are discussed in notes 4 and 7, respectively.

(p) Measure of Operating Results

AARP reports as operating all activities except for any required provision for federal and state income taxes, investment income earned on debt sinking funds and pension and post-retirement related charges other than net periodic benefit cost. Additionally, the effect of the adoption of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans,* is excluded from operating results.

(q) Advertising Expenses

AARP expenses advertising costs as incurred except to the extent of any direct response marketing costs that qualify for capitalization. These costs include brand awareness, member acquisition and retention, member program marketing, and advocacy advertising. For the years ended December 31, 2008 and 2007, advertising expense was $156,867,000 and $157,674,000, respectively, and no costs were capitalized.

(r) New Accounting Standards

Benefit Plans

In 2006, the FASB issued Statement No. 158 providing new accounting requirements for pension plans and other post-retirement benefits (see notes 10 and 11). The statement requires an employer to recognize in its statement of financial position the overfunded or underfunded status of its benefit plans. The recognition of an asset or liability related to the funded status position is effective for fiscal years ending after June 15, 2007. AARP adopted the recognition of the funded status provisions at December 31, 2007. The effect of adoption of Statement No. 158's recognition provisions was a decrease in net assets of $580,000 in 2007.

The following table reflects the incremental effect of applying Statement No. 158 as of December 31, 2007:

	Before adoption	Adjustments: Pension	Adjustments: Postretirement	After adoption
		(In thousands)		
Prepaid pension asset	$ 21,735	(16,946)	—	4,789
Total assets	1,852,676	(16,946)	—	1,835,730
Accrued postretirement benefit	84,174	—	(16,366)	67,808
Total liabilities	1,534,218	—	(16,366)	1,517,852
Total net assets	318,458	(16,946)	(16,366)	285,146

In 2008, AARP changed its measurement date for plan assets and plan liabilities from September 30 to December 31 to comply with the measurement date provisions of Statement No. 158. This change in measurement date resulted in a decrease in net assets of $6,408,000 in 2008.

The following table reflects the incremental effect of applying the change in measurement date under Statement No. 158 as of December 31, 2008 (in thousands):

	Before adoption	Adjustments: Pension	Adjustments: Postretirement	After adoption
		(In thousands)		
Accrued pension liability	$ 108,919	4,845	—	113,764
Accrued postretirement benefit	68,260	—	1,563	69,823
Total liabilities	1,685,818	4,845	1,563	1,692,226
Total net assets	113,932	(4,845)	(1,563)	107,524

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 defined fair value, established a framework for measuring fair value, and enhances the disclosures about fair value measurements. This statement does not require any new fair value measures. Statement No. 157 defines fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. Statement No. 157 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets. The three levels of the hierarchy are as follows:

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 nonactive 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.

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

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

AARP 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.

AARP has two interest rate swaps (swaps) covering the variable notes payable. These swaps are not traded on a daily basis, and are included in accounts payable and accrued expenses in the consolidated statements of financial position. The fair value of such swaps is based on observable market information rather than any market quotes. Accordingly, the estimates of fair value for such swaps as provided by an outside valuation firm are included in the amounts disclosed in Level 2.

AARP does not currently hold any Level 3 financial instruments.

The following is a summary of the fair value measurements of AARP's assets and liabilities within the fair value hierarchy as of December 31, 2008:

		December 31, 2008	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**
			(In thousands)	
Assets:				
Equity securities	$	91,083	91,083	—
Debt securities		244,791	32,331	212,460
Institutional mutual funds		580,272	—	580,272
	$	916,146	123,414	792,732
Liabilities:				
Swaps	$	979	—	979

The fair value of other financial instruments, principally cash and cash equivalents, accounts receivable and accounts payable approximates their carrying value at December 31, 2008 and 2007 because of the short maturity of these items.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP FAS 157-2 delayed, for one year, the effective date of Statement No. 157 for all nonfinancial assets and liabilities, except those recognized or disclosed in the financial statements on at least an annual basis. Consequently, Statement No. 157 will be effective for nonfinancial assets and liabilities for 2009.

In February 2007, the FASB issued Statement No. 159, *Fair Value Option for Financial Assets and Financial Liabilities*. Statement No. 159 permits entities to measure many financial instruments and certain other items at fair value. Under this statement an entity is permitted to measure eligible items at fair value at specified election dates. This statement, which does not require any new fair value measures, is effective for fiscal years beginning after November 15, 2007. Management has chosen not to elect the fair value option for eligible assets and liabilities.

(s) Reclassifications

Certain reclassifications have been made to the 2007 reported amounts to conform to the 2008 presentation.

(3) Member Insurance Program

AARP makes certain types of insurance available to its members through third party insurance carriers. Agreements between AARP, Inc., AARP Services, United HealthCare Corporation (United), Metropolitan Life Insurance Company (MetLife), Genworth Life Insurance Company (Genworth), and Aetna Life Insurance Company (Aetna) make certain types of insurance available to AARP members.

The Plan, a grantor trust, collects insurance premiums from participating members and is required to remit such payments to third party insurance carriers within a contractually specified period of time. These transactions are classified as agency transactions and, as such, are not recorded as either revenue or expenses on the accompanying consolidated statements of activities.

The premiums are collected from insured members and are subsequently remitted to the third party insurance carriers, and are invested and recorded with an offsetting liability “Insurance Premiums Payable.” For the years ended December 31, 2008 and 2007, the Plan experienced a net investment loss of $69,274,000 and earned net investment income of $40,422,000, respectively, which is included in investment income (loss) in the accompanying consolidated statements of activities.

At the direction of the third party insurance carriers, the Plan pays AARP, Inc. a portion of the total premiums collected for the use of its intellectual property, which is reported as royalties in the consolidated statements of activities. AARP derived 47% and 58% of total royalties from the Plan for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, insurance premiums payable were comprised of the following:

		2008	**2007**
		(In thousands)	
Premiums payable to the insurance carriers	$	514,186	485,546
Payments received in advance		180,128	162,066
Partial and unprocessed payments		16,928	15,362
Total insurance premiums payable	$	711,242	662,974

(4) Investments

AARP's investments by type of security were as follows at December 31, 2008 and 2007:

		2008	2007
		(In thousands)	
U.S. government and agency obligations	$	21,787	34,389
Mortgage-backed securities		134,593	164,487
Fixed income securities		88,411	87,270
Equity securities		91,083	90,999
Institutional mutual funds:			
Various equity index funds		219,049	300,489
Short term bond fund		10,610	17,174
U.S. bond market funds		17,556	16,641
U.S. government portfolio		52,564	60,700
Mortgage portfolio		159,190	183,885
Municipal portfolio		6,354	3,648
Real return bond fund		3,148	2,121
Private emerging markets bond fund		14,549	34,949
International bond portfolio		25,309	47,784
High yield bond portfolio		20,595	31,195
Investment grade corporate bond portfolio		46,007	25,659
Asset backed fund		5,341	7,251
Book value wrapper contract		—	(21,559)
Total investments	$	916,146	1,087,082

Investment (loss) income for the years ended December 31, 2008 and 2007 was as follows:

		2008	2007
		(In thousands)	
Interest and dividend income	$	60,844	64,876
Net (loss) gain		(258,420)	19,554
Total	$	(197,576)	84,430

Investment (loss) income as reported on the consolidated statements of activities was as follows:

		2008	2007
		(In thousands)	
Investment (loss) income – operations	$	(175,063)	79,951
Investment (loss) income – Sinking Fund		(22,513)	4,479
Total	$	(197,576)	84,430

(Continued)

As of December 31, 2008 and 2007, $431,000,000 and $484,000,000 of consolidated investments, respectively, is held by the AARP Insurance Plan for the payment of member insurance premiums.

(a) Book Value Wrapper Contract

The synthetic Book Value Wrapper Contract (BV Wrapper) with AIG Financial Products Corporation and AEGON Institutional Markets was entered into to provide a higher degree of predictability for overall investment returns and to reduce the short-term impact of significant fluctuations in the financial markets.

The BV Wrapper has two components – a portfolio of investment securities and a third-party book value "put" feature. The agreement establishes, on a quarterly basis, a specific guaranteed return based on the nature of the underlying portfolio, historical gains and losses of the portfolio, and certain other factors. AARP retains legal title to the underlying investment portfolio and controls investment related risks by setting investment guidelines. In early 2008, management decided to terminate the BV Wrapper for strategic reasons. As of December 31, 2008 and 2007, the market value of the investment portfolio underlying the BV Wrapper was $0 and $314,443,000, respectively, and the value of the BV Wrapper as a whole was $0 and $292,884,000, respectively. The market value of the investment portfolio as determined by AARP's investment managers, and the market value of the BV Wrapper as determined by AIG and AEGON, have been netted to determine the reported value of the total position. The associated gain (loss) amounted to $21,559,000 and $(3,194,000) for the years ended December 31, 2008 and 2007, respectively, and is included as a component of investment income (loss) in the accompanying consolidated statements of activities.

(b) Futures Contracts

The cash position on futures contracts settles daily for changes in their fair value. Realized and unrealized gains and losses based on changes in market values of open futures contracts were fully recognized in the accompanying consolidated statements of activities for the years ended December 31, 2008 and 2007. AARP had no direct exposure to futures contracts at December 31, 2008 and 2007, although they were used in several commingled funds.

(Continued)

(5) Accounts Receivable

Accounts receivable as of December 31 were as follows:

		2008	2007
		(In thousands)	
Royalties	$	37,442	43,312
Program fees		4,931	5,198
Publication advertising		10,434	8,124
Interest and dividends		2,070	2,186
Grants		7,488	8,881
Other		8,505	11,624
Gross accounts receivable		70,870	79,325
Allowance for doubtful accounts		(451)	(203)
Accounts receivable, net	$	70,419	79,122

(6) Property and Equipment

Property and equipment as of December 31 were as follows:

		2008	2007
		(In thousands)	
Land	$	55,110	55,110
Buildings and improvements		249,899	239,957
Furniture and equipment		101,927	96,526
Computer software		74,275	59,596
Leasehold improvements		6,775	4,622
Less accumulated depreciation and amortization		(172,820)	(151,033)
Property and equipment, net	$	315,166	304,778

(7) Notes Payable

The carrying amounts of notes payable and other long-term debt as of December 31 were as follows:

	2008	2007
	(In thousands)	
Fixed rate notes, maturing May 2031, net of discount of $931 in 2008 and $947 in 2007	$ 124,069	124,053
Variable rate notes, maturing May 2031	50,000	50,000
District of Columbia Variable Rate Revenue Bonds, maturing October 2034	25,000	25,000
Revolving credit facility, maturing November 2009	15,000	15,000
Revolving credit facility, maturing November 2009	16,000	16,000
Total notes payable	$ 230,069	230,053

The maturity dates of notes payable were as follows (in thousands):

2009	$ 31,000
2031	175,000
2034	25,000
	$ 231,000

Total interest expense incurred for the years ended December 31, 2008 and 2007 was $13,146,000 and $14,983,000, respectively.

(a) Fixed Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured fixed rate notes in the aggregate amount of $125,000,000 for permanent financing of the AARP Headquarters Building and bearing interest at 7.5%. Interest is payable monthly. Based on the borrowing rates currently available to AARP for fixed rate bonds with similar terms and average maturities, the fair value of the $125,000,000 fixed rate debentures is approximately $117,125,000 and $151,973,000 as of December 31, 2008 and 2007, respectively.

(b) Variable Rate Notes

On May 1, 2001, AARP, Inc. issued unsecured variable rate notes in the amount of $75,000,000, for permanent financing of the AARP Headquarters Building. The variable rates were effectively changed to approximately 5.40% fixed annual rates by AARP entering into two interest rate swap agreements with JP Morgan and Bank of America. Interest is payable monthly. On December 1, 2004, AARP made debt repayments of $25,000,000 on the unsecured variable notes.

(c) District of Columbia Variable Rate Revenue Bonds

On October 21, 2004, the Foundation issued 30 year District of Columbia Variable Rate Revenue Bonds Series 2004 in the amount of $25,000,000 to finance the purchase of two condominium units located within the AARP Headquarters Building. The bonds bear interest at a variable rate determined by the Remarketing Agent, based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The Foundation may elect at any time to convert to a fixed interest rate. As of December 31, 2008 and 2007, the notes had an interest rate of 1.20% and 3.48%, respectively.

The Foundation has obtained a letter of credit to secure repayment of the bond financing of its office space. 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.

(d) Revolving Credit Facility

On January 3, 2005, AARP, Inc. obtained an unsecured revolving credit facility with a maximum principal amount of $15,000,000 from a commercial bank. The credit facility bears interest at a floating LIBOR rate plus 16 basis points. As of December 31, 2008 and 2007, the credit facility had an interest rate of 0.62% and 5.03%, respectively. Interest on the credit facility is payable quarterly, and the credit facility expires November 29, 2009.

On December 5, 2006, AARP, Inc. obtained an unsecured revolving credit facility with a maximum principal amount of $16,000,000 from a commercial bank. The credit facility bears interest at a floating LIBOR rate plus 50 basis points. As of December 31, 2008 and 2007, the credit facility had an interest rate of 0.96% and 5.03%, respectively. Interest on the credit facility is payable quarterly and the credit facility expires November 29, 2009.

(e) Swap Agreements

AARP Inc. has two interest rate swap agreements (swaps), each covering $25,000,000 of the variable rate notes, which were executed to manage the variability of the interest expense associated with the floating rate debt. Under the swap agreements, AARP pays fixed annual rates of approximately 5.40% and receives an amount based on the notional amount of each swap at an interest rate equal to LIBOR. The terms of the swaps provide for net receipt or payment on the first of each month. The swaps are reported at their fair value on the accompanying consolidated statements of financial position.

The net interest accrual, which is the difference between the monthly fixed payment on the swap and the variable receipt from the swap counter-party, is recorded as interest expense together with the interest expense on the fixed rate and other variable rate debt in the accompanying consolidated statements of activities. For the years ended December 31, 2008 and 2007, AARP recorded a loss on the change in fair value of the swaps of $979,000 and $541,000, respectively, within management and general expenses on the accompanying consolidated statements of activities.

(Continued)

(f) Board Designated Sinking Fund

In 2001, the AARP Board of Directors authorized the creation and funding of a Sinking Fund for the purpose of repayment of outstanding notes and bonds payable. The designated minimum funding is $3,600,000 per year, to be transferred on or about January 1 of each year. The balance in the Sinking Fund as of December 31, 2008 and 2007 was $50,348,000 and $69,260,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The net investment loss on the Sinking Fund investments for the year ended December 31, 2008 was $22,513,000 and the net investment income on the Sinking Fund investments for the year ended December 31, 2007 was $4,479,000.

(8) Income Taxes

The significant components of the provision for income taxes were as follows for the years ended December 31, 2008 and 2007:

		2008	2007
		(In thousands)	
Current:			
Federal income tax	$	12,293	6,986
State income tax		3,674	2,243
Current income tax expense		15,967	9,229
Deferred:			
Federal income tax		1,074	(208)
State income tax		386	(119)
Deferred income tax benefit		1,460	(327)
Total income tax expense	$	17,427	8,902

The significant components of the deferred tax asset, which were included in prepaid expenses and other assets at December 31, 2008 and 2007, were as follows:

		2008	2007
		(In thousands)	
Deferred income tax assets:			
Employee benefits	$	1,492	2,744
Accrued expenses		2,214	2,356
Depreciation		(47)	70
Bad debt allowance		99	2
Partnership income		—	35
Total deferred income tax assets		3,758	5,207
Deferred income tax liability:			
Property tax expense		(21)	(23)
Total deferred income tax liability		(21)	(23)
Net deferred income tax asset	$	3,737	5,184

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2008 and 2007 totaled $17,928,269 and $6,645,506, respectively, and consisted entirely of estimated federal and state income tax payments.

(9) Grant Revenue

The Foundation and LCE administer grants received from federal agencies and private organizations. The two largest grant programs are described below.

(a) Senior Community Service Employment Program (SCSEP)

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 totaling approximately $79 million and $73 million for the years ended December 31, 2008 and 2007, respectively. The current commitment expires in June 2009.

(b) Tax Counseling for the Elderly (Tax-Aide)

Tax-Aide provides volunteer assistance 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 grant is primarily funded by AARP and the Internal Revenue Service totaling approximately $4 million and $3 million for the years ended December 31, 2008 and 2007, respectively. The current commitment expires in September 2009.

The continuation of all grant programs beyond expiration of the current agreements is subject to future commitment of funds by sponsoring agencies.

(10) Defined Benefit Pension Plan

Eligible employees of AARP participate in a noncontributory defined benefit pension plan called the AARP Employees' Pension Plan (the Plan). The Plan covers all employees meeting eligibility service requirements. AARP's funding policy is to contribute an amount equal to or greater than the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as actuarially determined, calculated on a level percentage of payroll costs basis, but not greater than the maximum tax deductible limit. Plan assets are invested in equity and fixed income securities managed by outside fund managers.

In 2008 and 2007, employer contributions to the Plan were $16,000,000 and $20,000,000, respectively. AARP was not required to make a contribution to the Plan in 2008. However, AARP plans to make a discretionary $16,000,000 contribution in 2009.

The net periodic pension expense for the years ended December 31, 2008 and 2007 was $19,380,000 and $20,570,000, respectively. The components of net periodic benefit cost for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
	(In thousands)	
Service cost	$ 17,500	16,812
Interest cost	22,133	19,726
Expected return on plan assets	(23,399)	(21,163)
Amortization of actuarial loss	2,870	4,892
Amortization of prior service cost	276	303
	$ 19,380	20,570

The following sets forth the funded status of the Plan and accrued pension liability and prepaid pension asset shown in the accompanying consolidated statements of financial position at December 31:

		2008	2007
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$	(337,657)	(315,488)
Service cost		(17,500)	(16,812)
Interest cost		(22,133)	(19,726)
Effect of eliminating early measurement date		(7,957)	—
Actuarial gain		17,872	7,131
Benefits paid		9,763	7,238
Benefit obligation at end of year		(357,612)	(337,657)
Change in plan assets:			
Fair value at beginning of year		338,446	291,669
Actual return on plan assets		(108,732)	38,015
Contribution to the plan		16,000	16,000
Effect of eliminating early measurement date		7,897	—
Benefits paid		(9,763)	(7,238)
Fair value at end of year		243,848	338,446
Funded status		(113,764)	789
Fourth quarter contribution		—	4,000
(Accrued pension liability) prepaid pension asset	$	(113,764)	4,789

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2008 and September 30, 2007 measurement dates were as follows:

	2008	2007
Discount rate	6.15%	6.30%
Future salary increases	4.00	4.00

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2008 and September 30, 2007 measurement dates were as follows:

	2008	2007
Discount rate	6.30%	6.00%
Expected long-term rate of return on plan assets	8.00	8.00
Future salary increases	4.00	4.00

In order to determine an appropriate return on plan assets, AARP considers its current asset allocation along with historical and expected returns that can be achieved with the various asset types in the Plan. As of December 31, 2008, the returns on plan assets from 2004 to 2008 were as follows: 7.4%, 4.4%, 10.8%, 6.6% and (29.1)%, respectively. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 8%.

The weighted average asset allocation for plan assets was as follows at December 31:

	2008	**2007**
Asset categories:		
Equity securities	57%	67%
Debt securities	37	28
Alternatives	4	4
Cash equivalents	2	1
	100%	100%

The targeted allocation of the investment assets in the Plan is for equities to comprise 65% of the investment portfolio, debt securities to comprise 30%, and alternatives to comprise the remaining 5%. These targets are not intended to serve as a rigid constraint on the investment allocation. The following chart sets out the minimum and maximum positions for the various asset classes in the Plan:

	Minimum	**Target**	**Maximum**
Asset class:			
Equity securities	61%	65%	71%
Debt securities	24	30	32
Alternatives	—	5	7
Cash equivalents	—	—	7

AARP notes that at December 31, 2008, its asset allocation for the pension plan was outside of the targeted range shown above. The value of the pension assets suffered a significant decline in the fourth quarter of 2008. AARP opted not to rebalance its portfolio in the fourth quarter due to unprecedented volatility in the investment markets. AARP plans to rebalance its asset portfolio in 2009 in order to return to the targeted asset mix.

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

2009	$ 10,171
2010	11,469
2011	12,920
2012	14,661
2013	16,580
Years 2014 – 2018	114,229

Amounts for 2008 not yet recognized as components of net periodic benefit cost under the provisions of Statement No. 158 (in thousands):

Net actuarial loss	$	109,313
Prior service cost		1,014
Total	$	110,327

Estimated amounts to be amortized into net periodic benefit cost in 2009 are $3,803,000 from actuarial loss and $212,000 from prior service cost.

(11) Postretirement Health Benefits

All employees of AARP and its affiliates may become eligible for continuing health care benefits after retirement if they meet minimum age and service requirements and are covered by an AARP employee health insurance plan at the date of retirement. Healthcare benefits are provided through the AARP Employees' Welfare Plan (the Welfare Plan).

The net postretirement health benefits expense for the Welfare Plan for the years ended December 31, 2008 and 2007 was $6,251,000 and $6,803,000, respectively. The components of net periodic benefit cost for the years ended December 31, 2008 and 2007 are as follows:

		2008	2007
		(In thousands)	
Service cost	$	2,464	2,498
Interest cost		4,400	4,184
Amortization of actuarial gain		(830)	(467)
Amortization of prior service cost		217	588
	$	6,251	6,803

(Continued)

The following sets forth the changes in benefit obligations, changes in plan assets, and the composition of accrued postretirement benefit cost shown in the accompanying consolidated statements of financial position at December 31:

		2008	2007
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$	(68,283)	(68,217)
Effect of eliminating early measurement date		(1,214)	—
Service cost		(2,464)	(2,498)
Interest cost		(4,400)	(4,184)
Actuarial (loss) gain		(3,721)	5,017
Participant contributions		(250)	(207)
Benefits paid		2,167	2,063
Plan amendments		8,549	—
Other		(207)	(257)
Benefit obligation at end of year	$	(69,823)	(68,283)
Change in plan assets:			
Fair value at beginning of year	$	—	—
Employer contribution		1,917	1,856
Plan participants' contributions		250	207
Benefits paid		(2,167)	(2,063)
Fair value at end of year	$	—	—
Funded status:			
Unfunded benefit obligation	$	(69,823)	(68,283)
Unrecognized prior service cost		—	—
Unrecognized actuarial gain		—	—
Fourth quarter contribution		—	475
Accrued postretirement benefit cost	$	(69,823)	(67,808)

As of December 31, 2008 and September 30, 2007, the weighted average discount rates used in the actuarial valuation were as follows:

	2008	2007
End of year benefit obligation	6.15%	6.30%
Net periodic benefit cost	6.30	6.00

For measurement purposes, the health care cost trend rate was 9% for 2008 (the rate was assumed to decrease gradually to 5.5% through 2012 and remain level thereafter).

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

2009	$	2,501
2010		2,695
2011		2,922
2012		3,158
2013		3,411
Years 2014 – 2018		20,664

Amounts at December 31, 2008 not yet recognized as components of net periodic benefit cost under the provisions of Statement No. 158 (in thousands):

Net actuarial loss	$	3,630
Prior service credit		(7,718)
Total	$	(4,088)

Estimated amounts to be amortized into net periodic benefit cost in 2009 are $0 from actuarial loss and $764,000 from prior service credit.

The healthcare cost trend rate assumption has a significant impact on the postretirement benefit costs and obligations. The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2008, would have resulted in an $11,817,000 increase or a $9,568,000 decrease in the accumulated postretirement benefit obligation, and a $1,435,000 increase or a $1,131,000 decrease in the 2008 aggregate service and interest cost.

The effect of a 1% change in the assumed healthcare cost trend rate at December 31, 2007, would have resulted in an $11,722,000 increase or a $9,467,000 decrease in the accumulated postretirement benefit obligation, and a $1,501,000 increase or a $1,171,000 decrease in the 2007 aggregate service and interest cost.

(12) Employee Health Care Benefits

AARP operates under a “pay as you go” model for employee health benefits, with obligations being funded from general corporate assets. For the years ended December 31, 2008 and 2007, expenses for the AARP Welfare Plan for current health care benefits were $16,990,000 and $17,678,000, respectively. As of December 31, 2008 and 2007, AARP had a liability related to these benefits of $4,311,000 and $4,229,000, respectively, which was included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

(13) Defined Contribution Plan

Effective January 1, 1998, AARP and certain affiliates participate in a single-employer defined contribution plan through the AARP Employees’ 401(k) Plan.

AARP provides an employer contribution to the 401(k) Plan, which matches 100% of employee contributions up to 3% of employee compensation, and 50% of employee contributions for the next 2% of employee compensation, up to the maximum limit allowed by law. For the years ended December 31, 2008 and 2007, AARP employer contributions to this plan totaled $7,852,000 and $7,655,000, respectively.

(14) Board Designated Unrestricted Net Assets

Board designated net assets at December 31, 2008 and 2007 were available to fund the following:

		2008	2007
		(In thousands)	
Debt retirement sinking fund	$	50,348	69,260
Investment earnings reserve		—	104,842
Foundation quasi endowment		11,115	15,148
Foundation board designated reserve		16,952	12,987
LCE quasi endowment		2,461	2,483
Other board designations		472	741
Board designated net assets	$	81,348	205,461

(15) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted primarily of net assets available for future periods.

(16) Commitments and Contingencies

(a) Lease commitments

AARP leases offices, information centers, and warehouse facilities in 93 locations in the U.S. and its territories under operating leases with various lease terms. Total rent expense incurred under operating leases was $18,708,000 and $17,978,000 in 2008 and 2007, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2008 are (in thousands):

2009	$	16,525
2010		15,718
2011		14,549
2012		13,975
2013		12,389
2014 – 2022		56,588
Total	$	129,744

(b) Contingencies

In the normal course of business, AARP is subject to various claims and lawsuits. Certain lawsuits may be covered, in full or in part, by external insurance coverage. AARP has recently been named in lawsuits relating to the benefits offered by AARP endorsed third party providers. AARP intends to vigorously defend these suits. The amount of loss from these lawsuits cannot be estimated as of December 31, 2008.

(17) Subsequent Events

Recent market conditions have resulted in an unusually high degree of volatility and increased risks related to short term liquidity of certain investments held by AARP, which could impact the value of investments after the date of these consolidated financial statements. In addition, subsequent to year-end, there has been a decline in the fair value of AARP's investments.