AARP

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

AARP

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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, 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 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, 2009 and 2008, 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.

KPMG LLP

March 24, 2010

AARP

Consolidated Statements of Financial Position

December 31, 2009 and 2008

(In thousands)

	2009	2008
Assets:		
Cash and cash equivalents (note 2(c))	$ 689,432	472,006
Accounts receivable, net (note 5)	74,470	70,419
Prepaid expenses and other assets (note 8)	37,578	26,013
Investments (note 4)	1,115,035	916,146
Property and equipment, net (note 6)	311,188	315,166
Total assets	$ 2,227,703	1,799,750
Liabilities:		
Accounts payable and accrued expenses	$ 104,442	100,030
Insurance premiums payable (note 3)	753,268	711,242
Deferred revenue and other liabilities	36,861	31,701
Deferred membership dues	449,073	435,597
Accrued pension liability (note 10)	78,413	113,764
Accrued postretirement health benefits (note 11)	72,864	69,823
Notes payable (note 7)	212,836	230,069
Total liabilities	1,707,757	1,692,226
Net assets:		
Unrestricted:		
Undesignated	235,314	17,186
Board designated (note 14)	276,360	81,348
Total unrestricted net assets	511,674	98,534
Temporarily restricted (note 15)	8,272	8,990
Total net assets	519,946	107,524
Total liabilities and net assets	$ 2,227,703	1,799,750

See accompanying notes to consolidated financial statements.

AARP

Consolidated Statement of Activities

Year ended December 31, 2009

(In thousands)

		Unrestricted	Temporarily restricted	Total
Operating revenues:				
Membership dues	$	246,170	—	246,170
Royalties (note 3)		656,975	—	656,975
Publications advertising		112,651	—	112,651
Grant revenue (note 9)		105,383	—	105,383
Program income		60,981	—	60,981
Contributions		41,608	1,550	43,158
Other operating income		2,260	—	2,260
Net assets released from restrictions		2,268	(2,268)	—
Operating revenue before investment gain (loss)		1,228,296	(718)	1,227,578
Investment gain (notes 3 and 4)		190,379	—	190,379
Total operating revenues		1,418,675	(718)	1,417,957
Operating expenses:				
Program services:				
Programs and field services		251,127	—	251,127
Publications		168,191	—	168,191
Member services		240,427	—	240,427
Legislation and research		100,877	—	100,877
Total program services		760,622	—	760,622
Supporting services:				
Membership development		80,686	—	80,686
Management and general		178,969	—	178,969
Total supporting services		259,655	—	259,655
Total operating expenses		1,020,277	—	1,020,277
Change in net assets from operations		398,398	(718)	397,680
Other income (expenses):				
Investment gain from sinking fund (notes 4 and 7)		15,231	—	15,231
Income taxes (note 8)		(13,824)	—	(13,824)
Charges other than net periodic benefit cost (notes 10 and 11)		13,335	—	13,335
Change in net assets		413,140	(718)	412,422
Net assets, beginning of year		98,534	8,990	107,524
Net assets, end of year	$	511,674	8,272	519,946

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 gain (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 date provisions for defined benefit and other postretirement plans	(202,000)	(1,946)	(203,946)
Effect of adopting measurement date provisions for defined benefit and other postretirement plans (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 Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	412,422	(210,354)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		33,408	27,606
Reserve for uncollectible accounts		124	248
Effect of adopting measurement date provisions for defined benefit and other postretirement plans		—	6,408
Charges other than net periodic benefit cost		(13,335)	106,239
Net (gain) loss on investments		(148,508)	258,420
Deferred income taxes		(8,876)	1,447
Amortization of premium on investments		31	18
Changes in operating assets and liabilities:			
Accounts receivable		(4,175)	8,455
Prepaid expenses and other assets		(2,742)	7,345
Prepaid pension asset		—	4,789
Accounts payable and accrued expenses		4,412	(43,650)
Insurance premiums payable		42,026	48,268
Deferred revenue and other liabilities		5,160	6,644
Deferred membership dues		13,476	47,317
Accrued pension liability		(20,576)	(1,408)
Accrued postretirement health benefits		1,601	4,540
Total adjustments		(97,974)	482,686
Net cash provided by operating activities		314,448	272,332
Cash flows from investing activities:			
Purchases of property and equipment		(29,360)	(37,978)
Proceeds from sale and maturities of investments		1,209,753	995,414
Purchases of investments		(1,260,165)	(1,082,916)
Net cash used in investing activities		(79,772)	(125,480)
Cash flows from financing activities:			
Payments on commercial bank borrowings		(17,250)	—
Net cash used in financing activities		(17,250)	—
Net increase in cash and cash equivalents		217,426	146,852
Cash and cash equivalents, beginning of year		472,006	325,154
Cash and cash equivalents, end of year	$	689,432	472,006
Supplemental disclosures:			
Cash paid for interest	$	10,807	12,979
Cash paid for income taxes		19,002	17,928

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.

Pursuant to an agreement with AARP, AARP Services is responsible for providing quality control services designed to ensure that licensees of AARP's intellectual property are using such property appropriately. AARP Services also provides market research, new product development and strategic alliance development services designed to support AARP's efforts to select, improve and expand member benefits and services made available to AARP members. AARP Services receives fees from AARP for performing these services.

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 payments 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.

(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. and affiliates 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 U.S. generally accepted accounting principles 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, 2009 and 2008, $308,000,000 and $284,000,000, respectively, were held by the AARP Insurance Plan for the payment of member insurance premiums.

(d) Accounts Receivable

AARP estimates uncollectible amounts 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 2009 and 2008, the estimated fair values represented approximately 79% and 63%, respectively, of total investments. Changes in fair value are reported as investment gain (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 2009 and 2008, the service provider United Healthcare Corporation accounted for 65% and 63%, 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.

(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 $15,611,000 and $14,920,000 for the years ended December 31, 2009 and 2008, respectively.

Fundraising expenses, which are reported as part of management and general expenses, were $17,837,000 and $25,972,000 for the years ended December 31, 2009 and 2008, 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 does not believe that there are any unrecognized tax benefits/liabilities that should be recorded.

(o) Financial Instruments

At December 31, 2009 and 2008, 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 2008 adoption of the measurement date provisions for defined benefit and other postretirement 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, 2009 and 2008, advertising expense was $115,902,000 and $156,867,000, respectively, and no costs were capitalized.

(r) Effect of Accounting Change in 2008

In 2008, AARP changed the measurement date for the defined pension and other post-retirement plans from September 30 to December 31 to comply with new accounting pronouncements. The following table reflects the incremental effect of applying the change in measurement date 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

This change in measurement date resulted in a decrease in net assets of $6,408,000 in 2008.

(s) 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 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 AARP's assumptions (unobservable inputs). AARP 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 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 and 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, 2009 and 2008:

		Total 2009	Level 1	Level 2
			(In thousands)	
Assets:				
Equity securities	$	139,702	139,702	—
Debt securities		95,197	11,253	83,944
Institutional mutual funds		880,136	—	880,136
	$	1,115,035	150,955	964,080
Liabilities:				
Swaps	$	657	—	657

		Total 2008	Level 1	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, 2009 and 2008 because of the short maturity of these items.

(3) Grantor Trust

AARP established a grantor trust for the purpose of making 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, holds group policies, and maintains depository accounts to initially collect insurance premiums received from participating members. In accordance with the agreements referenced above, collections are remitted to third party insurance carriers within contractually specified periods of time, net of the contractual royalty payments that are due to AARP, Inc., which are reported as royalties in

(Continued)

the consolidated statements of activities. AARP derived 50% and 47% of total royalties from the Plan for the years ended December 31, 2009 and 2008, respectively. Billing of insurance premiums and issuance of certificates of insurance to insured members is the responsibility of the third party insurance carrier. The collection of premiums and submission of amounts due to the insurance carrier are classified as agency transactions and, as such, are not recorded as either revenue or expenses on the accompanying consolidated statements of activities. For the years ended December 31, 2009 and 2008, the Plan processed $6.8 billion and $6.3 billion, respectively, of premium payments from member participants.

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, 2009 and 2008, the Plan experienced a net investment gain (loss) of $89,985,000 and $(69,274,000), respectively, which is included in investment income (loss) in the accompanying consolidated statements of activities.

At December 31, 2009 and 2008, insurance premiums payable were comprised of the following:

		2009	2008
		(In thousands)	
Premiums payable to the insurance carriers	$	552,237	514,186
Payments received in advance		183,327	180,128
Partial and unprocessed payments		17,704	16,928
Total insurance premiums payable	$	753,268	711,242

(4) Investments

AARP's investments by type of security were as follows at December 31, 2009 and 2008:

		2009	2008
		(In thousands)	
U.S. government and agency obligations	$	512	21,787
Mortgage-backed securities		23,603	134,593
Fixed income securities		71,082	88,411
Equity securities		139,702	91,083
Institutional mutual funds:			
Various equity index funds		317,158	219,049
Short term bond fund		25,207	10,610
U.S. bond market funds		18,519	17,556
U.S. government portfolio		96,930	52,564
Mortgage portfolio		227,948	159,190
Municipal portfolio		15,807	6,354
Real return bond fund		—	3,148
Private emerging markets bond fund		14,514	14,549
International bond portfolio		44,268	25,309
High yield bond portfolio		6,230	20,595
Investment grade corporate bond portfolio		102,334	46,007
Asset backed fund		11,221	5,341
Total investments	$	1,115,035	916,146

Investment income (loss) for the years ended December 31, 2009 and 2008 was as follows:

		2009	2008
		(In thousands)	
Interest and dividend income	$	57,102	60,844
Net gain (loss)		148,508	(258,420)
Total	$	205,610	(197,576)

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

		2009	2008
		(In thousands)	
Investment income (loss) – operations	$	190,379	(175,063)
Investment income (loss) – sinking fund		15,231	(22,513)
Total	$	205,610	(197,576)

As of December 31, 2009 and 2008, $451,200,000 and $431,000,000 of consolidated investments, respectively, is held by the AARP Insurance Plan for the payment of member insurance premiums.

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, 2009 and 2008. AARP had no direct exposure to futures contracts at December 31, 2009 and 2008, although they were used in several commingled funds.

(5) Accounts Receivable

Accounts receivable as of December 31 were as follows:

		2009	**2008**
		(In thousands)	
Royalties	$	37,779	37,442
Program fees		4,698	4,931
Publication advertising		9,527	10,434
Interest and dividends		503	2,070
Grants		14,792	7,488
Other		7,746	8,505
Gross accounts receivable		75,045	70,870
Allowance for doubtful accounts		(575)	(451)
Accounts receivable, net	$	74,470	70,419

(6) Property and Equipment

Property and equipment as of December 31 were as follows:

		2009	**2008**
		(In thousands)	
Land	$	55,110	55,110
Buildings and improvements		253,952	249,899
Furniture and equipment		105,583	101,927
Computer software		84,690	74,275
Leasehold improvements		8,490	6,775
Less accumulated depreciation and amortization		(196,637)	(172,820)
Property and equipment, net	$	311,188	315,166

(7) Notes Payable

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

		2009	2008
		(In thousands)	
Fixed rate notes, maturing May 2031, net of discount of $914 in 2009 and $931 in 2008	$	124,086	124,069
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 2010		13,750	15,000
Revolving credit facility, matured November 2009		—	16,000
Total notes payable	$	212,836	230,069

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

2010	$	13,750
2031		175,000
2034		25,000
	$	213,750

Total interest expense incurred for the years ended December 31, 2009 and 2008 was $10,253,000 and $13,146,000, 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 $152,480,000 and $117,125,000 as of December 31, 2009 and 2008, 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, 2009 and 2008, the notes had an interest rate of 0.25% and 1.20%, 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 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. Borrowings under the credit facility bear interest at a floating LIBOR rate plus 92.50 basis points. As of December 31, 2009 and 2008, the credit facility had an interest rate of 1.16% and 0.62%, respectively. Interest on the credit facility is payable quarterly, and the credit facility expires November 28, 2010.

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. Borrowings under the credit facility bore interest at a floating LIBOR rate plus 50 basis points. On November 20, 2009, AARP paid the entire $16 million balance of the revolving credit facility and it was not renewed. As of December 31, 2008, the credit facility had an interest rate of 0.96%.

On July 17, 2009, AARP Inc. entered into an unsecured revolving credit facility with a maximum principal amount of $50,000,000 from a commercial bank. Borrowings under the credit facility bear interest at a floating LIBOR rate plus 80 basis points. AARP did not draw any funds from this line of credit facility in 2009. The credit facility expires July 15, 2010.

(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, 2009 and 2008, AARP recognized a gain of $322,000 and a loss of $438,000 on the change in fair value of the swaps, respectively, recorded within management and general expenses on the accompanying consolidated statements of activities.

(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, 2009 and 2008 was $69,179,000 and $50,348,000, respectively, and the Sinking Fund assets were included in investments in the accompanying consolidated statements of financial position. The net investment gain (loss) on the Sinking Fund investments for the years ended December 31, 2009 and 2008 was $15,231,000 and $(22,513,000), respectively.

(8) Income Taxes

The significant components of the provision for income taxes were as follows for the years ended December 31, 2009 and 2008:

		2009	2008
		(In thousands)	
Current:			
Federal income tax	$	16,946	12,293
State income tax		5,754	3,674
Current income tax expense		22,700	15,967
Deferred:			
Federal income tax		(6,504)	1,074
State income tax		(2,372)	386
Deferred income tax benefit		(8,876)	1,460
Total income tax expense	$	13,824	17,427

The significant components of the net deferred tax asset, which was included in prepaid expenses and other assets at December 31, 2009 and 2008, were as follows:

		2009	2008
		(In thousands)	
Deferred income tax assets:			
Employee benefits	$	1,624	1,492
Accrued expenses		1,906	2,214
Bad debt allowance		32	99
Deferred revenue		9,157	—
Total deferred income tax assets		12,719	3,805
Deferred income tax liability:			
Depreciation		(85)	(47)
Property tax expense		(21)	(21)
Total deferred income tax liability		(106)	(68)
Net deferred income tax asset	$	12,613	3,737

Income taxes paid by AARP, Inc., Financial Services Corp., and AARP Services during 2009 and 2008 totaled $19,002,000 and $17,928,000, 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) WorkSearch Program

The *WorkSearch* program provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level. The *WorkSearch* Program is primarily funded by the U.S. Department of Labor (DOL) with grants totaling approximately $91 million and $79 million for the years ended December 31, 2009 and 2008, respectively. The current DOL commitment expires in June 2010.

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

Tax-Aide provides volunteer assistance 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 AARP and the Internal Revenue Service (IRS) totaling approximately $5 million and $4 million for the years ended December 31, 2009 and 2008, respectively. The current IRS commitment expires in September 2010.

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 2009 and 2008, employer contributions to the Plan were $43,100,000 and $16,000,000, respectively. AARP was not required to make a contribution to the Plan in 2009. AARP plans to make a discretionary $30,000,000 contribution in 2010.

The components of net periodic pension benefit cost for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
	(In thousands)	
Service cost	$ 16,511	17,500
Interest cost	23,546	22,133
Expected return on plan assets	(23,040)	(23,399)
Amortization of actuarial loss	4,724	2,870
Amortization of prior service cost	198	276
Curtailment and termination charge	586	—
	$ 22,525	19,380

As a result of a cost containment program, AARP had a curtailment charge of $586,000 in 2009.

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

		2009	2008
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$	(357,612)	(337,657)
Service cost		(16,511)	(17,500)
Interest cost		(23,546)	(22,133)
Effect of eliminating early measurement date		—	(7,957)
Actuarial (loss) gain		(40,162)	17,872
Benefits paid		9,351	9,763
Curtailment and temination benefits		2,625	—
Benefit obligation at end of year		(425,855)	(357,612)
Change in plan assets:			
Fair value at beginning of year		243,848	338,446
Actual return on plan assets		69,845	(108,732)
Contribution to the plan		43,100	16,000
Effect of eliminating early measurement date		—	7,897
Benefits paid		(9,351)	(9,763)
Fair value at end of year		347,442	243,848
Accrued pension liability	$	(78,413)	(113,764)

The assumptions used to determine the benefit obligation in the actuarial valuations at the December 31, 2009 and 2008 measurement dates were as follows:

	2009	2008
Discount rate	6.00%	6.15%
Future salary increases	4.00	4.00

The assumptions used to determine net periodic benefit cost in the actuarial valuations at December 31, 2009 and 2008 measurement dates were as follows:

	2009	2008
Discount rate	6.15%/6.65%	6.30%
Expected long-term rate of return on plan assets	7.50	8.00
Future salary increases	4.00	4.00

From January 1, 2009 through March 31, 2009, the discount rate used to determine net periodic benefit cost was 6.15%. The discount rate was changed to 6.65% effective April 1, 2009 in response to a curtailment within the Plan.

(Continued)

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, 2009, the returns on plan assets from 2005 to 2009 were as follows: 4.4%, 10.8%, 6.6%, (29.1)%, and 26.5%, respectively. Management believes that the current asset allocation justifies an expected long-term rate of return on plan assets of 7.5%.

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

	2009	**2008**
Asset categories:		
Equity securities	67%	57%
Debt securities	28	37
Alternatives	5	4
Cash equivalents	—	2
	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

The December 31, 2008 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 rebalanced its asset portfolio in 2009 in order to return to the targeted asset mix.

As of December 31, 2009, the fair value measurement of AARP's pension plan assets by asset category within the fair value hierarchy was as follows:

		Total	Level 1	Level 2
			(In thousands)	
Assets:				
Cash and receivables	$	2,637	2,637	—
Equity securities		118,405	118,405	—
Debt securities		97,280	92,510	4,770
Institutional mutual funds		129,120	—	129,120
	$	347,442	213,552	133,890

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

2010	$	12,894
2011		14,538
2012		16,485
2013		18,550
2014		20,718
Years 2015 – 2019		138,693

Amounts for 2009 not yet recognized as components of net periodic benefit cost (in thousands):

Net actuarial loss	$	111,766
Prior service cost		732
Total	$	112,498

Estimated amounts to be amortized into net periodic benefit cost in 2010 are $10,048,000 from actuarial loss and $193,000 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 components of net periodic postretirement health benefit cost for the years ended December 31, 2009 and 2008 are as follows:

		2009	2008
		(In thousands)	
Service cost	$	2,185	2,464
Interest cost		4,367	4,400
Amortization of actuarial gain		(809)	(830)
Amortization of prior service costs		(718)	217
Curtailment gain		(1,630)	—
	$	3,395	6,251

As a result of a cost containment program, AARP had a curtailment gain of $1,630,000 in 2009.

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:

		2009	2008
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$	(69,823)	(68,283)
Effect of eliminating early measurement date		—	(1,214)
Service cost		(2,185)	(2,464)
Interest cost		(4,367)	(4,400)
Actuarial gain (loss)		696	(3,721)
Participant contributions		(263)	(250)
Benefits paid		2,057	1,960
Plan amendments		—	8,549
Curtailment and termination benefits		1,021	—
Benefit obligation at end of year	$	(72,864)	(69,823)
Change in plan assets:			
Fair value at beginning of year	$	—	—
Employer contribution		2,089	1,917
Plan participants' contributions		263	250
Benefits paid		(2,352)	(2,167)
Fair value at end of year	$	—	—
Accrued postretirement health benefits	$	(72,864)	(69,823)

As of December 31, 2009 and 2008, the weighted average discount rates used in the actuarial valuation were as follows:

	2009	2008
End of year benefit obligation	6.00%	6.15%
Net periodic benefit cost	6.15/6.65	6.30

From January 1, 2009 through March 31, 2009, the discount rate used to determine net periodic benefit cost was 6.15%. The discount rate was changed to 6.65% effective April 1, 2009 in response to a curtailment within the Plan.

For measurement purposes, the health care cost trend rate was 8% for 2009 (the rate was assumed to decrease gradually to 5% in 2016 and remain level thereafter).

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

2010	$	3,170
2011		3,502
2012		3,882
2013		4,285
2014		4,660
Years 2015 – 2019		29,472

Amounts at December 31, 2009 not yet recognized as components of net periodic benefit cost (in thousands):

Net actuarial gain	$	12,621
Prior service credit		6,392
Total	$	19,013

Estimated amounts to be amortized into net periodic benefit cost in 2010 are $436,000 from actuarial gain and $702,000 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, 2009, would have resulted in an $11,605,000 increase or a $9,439,000 decrease in the accumulated postretirement benefit obligation, and a $1,469,000 increase or a $1,148,000 decrease in the 2009 aggregate service and interest cost.

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.

(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, 2009 and 2008, expenses for the AARP Welfare Plan for current health care benefits were $19,976,000 and $16,990,000, respectively. As of December 31, 2009 and 2008, AARP had a liability related to these benefits of $3,697,000 and $3,636,000, 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. As part of a cost containment program, AARP suspended the employer match as of April, 2009. AARP intends to restore the employer match for 2010. For the years ended December 31, 2009 and 2008, AARP employer contributions to this plan totaled $2,620,000 and $7,852,000, respectively.

(14) Board Designated Unrestricted Net Assets

Board designated net assets at December 31, 2009 and 2008 were available to fund the following:

		2009	2008
		(In thousands)	
Debt retirement sinking fund	$	69,179	50,348
Investment earnings reserve		172,765	—
Foundation quasi-endowment		13,419	11,115
Foundation board designated operating reserve		18,122	16,952
LCE quasi-endowments		2,610	2,461
Other board designations		265	472
Board designated net assets	$	276,360	81,348

(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 $19,335,000 and $18,708,000 in 2009 and 2008, respectively.

Future minimum lease payments, exclusive of additional operating costs, at December 31, 2009 are (in thousands):

2010	$	16,516
2011		15,585
2012		14,928
2013		13,107
2014		10,253
2015 – 2022		47,636
Total	$	118,025

(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, 2009.

(17) Subsequent Events

In preparing these financial statements, AARP has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued, March 24, 2010.