



**AARP FOUNDATION**

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

The Board of Directors  
AARP Foundation:

We have audited the accompanying consolidated statements of financial position of AARP Foundation and subsidiary (collectively known as AARP Foundation) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of AARP Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AARP Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AARP Foundation and subsidiary as of December 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in the Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

March 21, 2011

## AARP FOUNDATION

### Consolidated Statements of Financial Position

December 31, 2010 and 2009

(In thousands)

	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 20,544	\$ 10,497
Contributions receivable (note 4)	1,128	666
Grants receivable (note 5)	6,748	12,403
Due from affiliates (note 6)	—	446
Prepaid expenses and other assets	1,445	1,849
Investments (note 3)	55,300	53,608
Property and equipment, net (note 7)	18,339	19,119
Charitable gift annuity investments (note 3)	8,183	8,196
Total assets	\$ 111,687	\$ 106,784
<b>Liabilities:</b>		
Accounts payable and accrued expenses (note 8)	\$ 11,032	\$ 6,944
Deferred revenue	5,016	9,644
Due to affiliates (note 6)	1,810	4,316
Charitable gift annuities payable	5,516	6,033
Bonds payable (note 9)	25,000	25,000
Total liabilities	48,374	51,937
Commitments and contingencies (notes 6, 8, 14 and 17)		
<b>Net assets:</b>		
Unrestricted:		
Undesignated	20,946	17,449
Board designated quasi-endowment (note 16)	15,218	13,419
Board designated operating reserves	19,016	18,122
Total unrestricted	55,180	48,990
Temporarily restricted (note 15)	8,133	5,857
Total net assets	63,313	54,847
Total liabilities and net assets	\$ 111,687	\$ 106,784

See accompanying notes to consolidated financial statements.

**AARP FOUNDATION**

Consolidated Statements of Activities

Years ended December 31, 2010 and 2009

(In thousands)

	2010			2009		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating revenue:						
Grant revenue (note 10)	\$ 142,289	\$ —	\$ 142,289	\$ 103,106	\$ —	\$ 103,106
Contributions (note 6)	26,569	4,168	30,737	13,490	1,304	14,794
In-kind contributions (notes 2(h) and 6)	31,704	—	31,704	25,857	—	25,857
Investment income designated for operations (note 3)	2,625	—	2,625	747	—	747
Other	172	—	172	440	—	440
Net assets released from restrictions (note 15)	1,892	(1,892)	—	2,753	(2,753)	—
<b>Total operating revenue</b>	<b>205,251</b>	<b>2,276</b>	<b>207,527</b>	<b>146,393</b>	<b>(1,449)</b>	<b>144,944</b>
Expenses:						
Program services (notes 11 and 12):						
WorkSearch	146,738	—	146,738	109,517	—	109,517
Tax-Aide	12,732	—	12,732	11,408	—	11,408
Legal Advocacy	4,759	—	4,759	4,653	—	4,653
Other programs	18,275	—	18,275	13,080	—	13,080
<b>Total program services</b>	<b>182,504</b>	<b>—</b>	<b>182,504</b>	<b>138,658</b>	<b>—</b>	<b>138,658</b>
Supporting services:						
Fundraising (note 12)	12,043	—	12,043	11,734	—	11,734
Management and general	8,948	—	8,948	6,228	—	6,228
<b>Total supporting services</b>	<b>20,991</b>	<b>—</b>	<b>20,991</b>	<b>17,962</b>	<b>—</b>	<b>17,962</b>
<b>Total expenses</b>	<b>203,495</b>	<b>—</b>	<b>203,495</b>	<b>156,620</b>	<b>—</b>	<b>156,620</b>
<b>Change in net assets from operations</b>	<b>1,756</b>	<b>2,276</b>	<b>4,032</b>	<b>(10,227)</b>	<b>(1,449)</b>	<b>(11,676)</b>
Other changes in net assets:						
Investment income in excess of amounts designated for operations (note 3)	4,613	—	4,613	11,580	—	11,580
Change in value of charitable gift annuities	(179)	—	(179)	(535)	—	(535)
<b>Change in net assets</b>	<b>6,190</b>	<b>2,276</b>	<b>8,466</b>	<b>818</b>	<b>(1,449)</b>	<b>(631)</b>
Net assets, beginning of year	48,990	5,857	54,847	48,172	7,306	55,478
<b>Net assets, end of year</b>	<b>\$ 55,180</b>	<b>\$ 8,133</b>	<b>\$ 63,313</b>	<b>\$ 48,990</b>	<b>\$ 5,857</b>	<b>\$ 54,847</b>

See accompanying notes to consolidated financial statements.

## AARP FOUNDATION

### Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Change in net assets	\$ 8,466	\$ (631)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	784	807
Amortization of debt issuance costs	17	17
Net realized and unrealized gains on investments	(5,499)	(9,553)
Change in value of charitable gift annuities	179	535
Changes in operating assets and liabilities:		
Contributions receivable	(462)	576
Grants receivable	5,655	(5,942)
Due from affiliates	446	2,496
Prepaid expenses and other assets	387	18
Accounts payable and accrued expenses	4,088	514
Deferred revenue	(4,628)	122
Due to affiliates	(2,506)	800
Charitable gift annuities payable	(696)	(643)
Net cash provided by (used in) operating activities	6,231	(10,884)
Cash flows from investing activities:		
Purchase of property and equipment	(4)	—
Purchase of investments	(16,749)	(6,670)
Proceeds from sales and maturities of investments	20,569	14,279
Net cash provided by investing activities	3,816	7,609
Net increase (decrease) in cash and cash equivalents	10,047	(3,275)
Cash and cash equivalents, beginning of year	10,497	13,772
Cash and cash equivalents, end of year	\$ 20,544	\$ 10,497
Cash paid for interest	\$ 69	\$ 111

See accompanying notes to consolidated financial statements.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (1) Description of Organization

AARP Foundation was organized in 1961 as a District of Columbia not-for-profit corporation. AARP Foundation is dedicated to serving vulnerable people ages 50 and older by creating solutions that help them secure the essentials – food, housing, income and personal connection – and achieve their best life. AARP Foundation is a nonprofit organization qualified under Section 501(c)(3) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes on its charitable operations. In addition, AARP Foundation is a public charity as defined in Section 509(a)(1) of the IRC.

AARP Foundation receives funding principally from federal and state governments, AARP, Inc., foundations, corporations, and individuals. 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 AARP Foundation, was organized in 1963 as a District of Columbia not-for-profit corporation. The Institute is a nonprofit organization qualified under Section 501(c)(3) of the IRC and is therefore exempt from federal income taxes on its charitable operations. In addition, the Institute is a supporting organization as defined in Section 509(a)(3) of the IRC.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

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

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

*Unrestricted* – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors to function as quasi-endowment and operating reserves.

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

##### (b) Cash Equivalents

Short-term deposits and investments with original maturities of three months or less are reported as cash equivalents, except for cash or money market accounts held by external managers.

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(c) ***Investments***

Investments are measured and reported at fair value. Those with a readily determinable fair value are based on quotations obtained from national security exchanges.

Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. Foundation management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

Changes in fair value are reported as investment income or loss in the consolidated statement of activities.

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

(d) ***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation. Management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are 26 years for office space, 10 years for building improvements, and 3 years for equipment. Land is not subject to depreciation. Maintenance and repair costs are expensed as incurred.

(e) ***Charitable Gift Annuities***

The Foundation has entered into a number of charitable gift annuity (CGA) agreements with its donors. Under the terms of these agreements, the donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time (usually the donor's lifetime) to the donor or to individuals or organizations designated by the donor.

At the inception of a CGA agreement, the excess of the fair value of assets received over the present value of annuity payments to be made to the donor or beneficiary is recognized as a charitable contribution. Subsequent changes to the present value of annuity payments are reported as change in value of charitable gift annuities on the statement of activities.

The assets held for all charitable gift annuities are reported in charitable gift annuity investments on the statement of financial position and stated at fair value. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows, based on appropriate

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

discount rates and mortality tables. The Foundation invests the charitable gift annuities in accordance with relevant state laws.

The AARP Board of Directors has committed that AARP, Inc. will assume the Foundation's charitable gift annuity liabilities in the event the Foundation were to be unable to fulfill its obligations.

**(f) Grant Revenue**

Grant revenue is recognized to the extent allowable expenses are incurred. Amounts reported as grants receivable represent grant expenses incurred in advance of the receipt of funds. Grant funds received in advance are reported as deferred revenue.

**(g) Contributions**

The Foundation reports contributions as revenue when received or pledged by the donor. The Foundation reports contributions as temporarily restricted revenue if such gifts are restricted by the donor to a specific program or include an explicit or implied time restriction.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Gifts whose donor-stipulated purposes are met in the same year as received are reported as unrestricted revenue.

**(h) In-kind Contributions**

A portion of the Foundation's contributed services involves the Senior Community Service Employment Program (SCSEP) through which the Foundation receives donated supervisory services. These contributed services are recorded at their estimated fair values as both revenue and program expenses in the statement of activities. Donated supervisory services of \$18,500,000 and \$15,611,000 were recognized for the years ended December 31, 2010 and 2009, respectively.

Over 35,000 volunteers provide tax preparation assistance under the Tax-Aide program. The Foundation has concluded that these donated services do not meet the requirements for recognition as contributed services under U.S. generally accepted accounting principles.

In addition, AARP contributes certain services to the Foundation (see note 6).

**(i) Use of Estimates**

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

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

**(j) *Income Taxes***

The Foundation recognizes income tax positions based on a 'more-likely than-not' threshold. The Foundation has no material uncertain income tax positions in 2010 or 2009.

**(k) *Measure of Operations***

All activities, except for investment income or loss in excess of amounts designated for operations and the change in value of charitable gift annuities, are reported as changes in net assets from operations.

**(l) *Fair Value Measurements***

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Foundation's assumptions (unobservable inputs). The Foundation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

*Level 1* – Unadjusted quoted market prices for identical assets or liabilities in active markets.

*Level 2* – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

*Level 3* – Unobservable inputs that cannot be corroborated by observable market data.

At December 31, 2010 and 2009, the carrying value of financial instruments such as cash equivalents, contributions and grants 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 and bonds payable are discussed in notes 3 and 9, respectively.

**(m) *Reclassifications***

Certain reclassifications have been made to the 2009 reported amounts to conform to the 2010 presentation.

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (3) Investments and Fair Value Measurements

AARP Foundation's investments include shares in AARP's unitized pooled investment fund. Income and gains/losses are allocated based on AARP Foundation's pro rata share of the investment pool.

The fair value of AARP Foundation's share of pooled assets was approximately \$53,245,000 and \$49,979,000 at December 31, 2010 and 2009, respectively. Investments, including amounts held for charitable gift annuities, are classified as follows, under the definitions in note 2(1), at December 31, 2010 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
U.S. Government and agency obligations	\$ 279	\$ —	\$ 279
Mortgage-backed securities	—	266	266
U.S corporate fixed income securities	3,722	750	4,472
International fixed income securities	—	—	—
International equity securities	4,610	—	4,610
Emerging markets equity securities	974	—	974
Small cap equity securities	5,879	—	5,879
Institutional mutual funds:			
Large/mid cap equity funds	—	13,052	13,052
International equity fund	—	3,913	3,913
Real asset funds	—	381	381
Fixed income sector funds:			
Short-term fund	—	596	596
Private ST Floating NAV fund	—	477	477
U.S. Government portfolio	—	5,395	5,395
Mortgage portfolio	—	12,175	12,175
Municipal portfolio	—	679	679
Real return bond fund	—	1,187	1,187
Private developing local market fund	—	210	210
Private emerging markets bond fund	—	897	897
International portfolio	—	2,134	2,134
High yield portfolio	—	298	298
Investment-grade corporate portfolio	—	4,893	4,893
Asset-backed fund	—	596	596
Cash and cash equivalents	120	—	120
Total	<u>\$ 15,584</u>	<u>\$ 47,899</u>	<u>\$ 63,483</u>

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
U.S. Government and agency obligations	\$ 511	\$ —	\$ 511
Mortgage-backed securities	—	916	916
U.S. corporate fixed income securities	2,424	3,498	5,922
International fixed income securities	—	32	32
International equity securities	4,427	—	4,427
Emerging markets equity securities	438	—	438
Small cap equity securities	6,025	—	6,025
Institutional mutual funds			
Large/mid cap equity funds	—	13,077	13,077
International equity fund	—	322	322
Real asset funds	—	454	454
Fixed income sector funds:			
Short-term fund	—	1,154	1,154
Private ST floating II NAV fund	—	—	—
U.S. Government portfolio	—	4,172	4,172
Mortgage portfolio	—	10,433	10,433
Municipal portfolio	—	723	723
Real return bond fund	—	—	—
Private developing local market fund	—	664	664
Private emerging markets bond fund	—	—	—
International portfolio	—	2,026	2,026
High yield portfolio	—	285	285
Investment-grade corporate portfolio	—	4,684	4,684
Asset-backed fund	—	514	514
Cash and cash equivalents	5,025	—	5,025
Total	\$ 18,850	\$ 42,954	\$ 61,804

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

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 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.

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

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

The Foundation invests in several institutional mutual funds. These funds are not available to retail investors. These funds do not usually have daily purchases and redemptions. Accordingly, such investments are included in the amount disclosed in Level 2. The fair value estimates of such institutional mutual funds are based on net asset value (NAV), as provided by the investment manager. The NAV is determined from a market that is not active; however, the underlying investments in these institutional mutual funds may trade on active markets.

The following summarizes the nature and risk of these investments as of December 31, 2010 (in thousands):

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Large/mid cap equity funds (a)	\$ 13,052	daily or monthly	none or 30 days
International equity fund (b)	3,913	semi-monthly	2 days
Real asset funds (c)	381	daily	none
Fixed income sector funds (d)	29,537	daily	none
Total	<u>\$ 46,883</u>		

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The following summarizes the nature and risk of these investments as of December 31, 2009 (in thousands):

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Large/mid cap equity funds (a)	\$ 13,077	daily or monthly	none or 30 days
International equity fund (b)	322	semi-monthly	2 days
Real asset funds (c)	454	daily	none
Fixed income sector funds (d)	24,655	daily	none
Total	<u>\$ 38,508</u>		

AARP Foundation does not have any unfunded commitments related to the above investments as of December 31, 2010 or 2009.

- (a) This category is invested in two institutional mutual funds. One fund employs a passive investment strategy of seeking to replicate the performance of a large-cap index. The other fund is actively managed and seeks to outperform a different large-cap index than the previously mentioned fund. The fund employs a passive investment approach, has no restrictions on redemptions and/or purchases and is approximately 81% of this investment class.
- (b) This category is invested in a single institutional mutual fund. The fund employs a passive investment strategy of seeking to replicate the performance of a global, developed market index.
- (c) This category is invested in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversification outside of equities and fixed income investments, and finally additional sources of absolute return and income. During periods of strong stock market performance, the funds will probably underperform. Additionally macroeconomic trends such as demand for natural resources or demand for real estate can contribute to volatility within this investment class.
- (d) This category is handled by one fund manager who employs twelve different sector funds. This fund manager is given wide latitude under mutually-agreed-upon investment guidelines to rotate in and out of sectors, such as mortgages, municipalities, high-yield, etc. The returns of these various sectors are aggregated and compared to an annual, pre-established benchmark.

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Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Investment income for the years ended December 31, 2010 and 2009 is summarized as follows (in thousands):

	<b>2010</b>	<b>2009</b>
Interest and dividend income	\$ 1,739	\$ 2,774
Net realized and unrealized gains	5,499	9,553
Total	\$ 7,238	\$ 12,327
	<b>2010</b>	<b>2009</b>
Investment income designated for operations	\$ 2,625	\$ 747
Investment income in excess of amounts designated for operations	4,613	11,580
Total	\$ 7,238	\$ 12,327

In 2009, the Foundation's Board of Directors adopted an additional spending rate policy, which took effect in 2010. The effect of this policy was to increase the amount of investment income designated for operations for the year ended December 31, 2010 by \$1,938,000 above what the amount would have been under the prior year policy.

**(4) Contributions Receivable**

Contributions receivable as of December 31, 2010 and 2009 are expected to be received as follows (in thousands):

	<b>2010</b>	<b>2009</b>
Within one year	\$ 350	\$ 250
Between two and five years	550	250
Thereafter	228	182
	1,128	682
Unamortized discount (4 – 7%)	—	(16)
Net contributions receivable	\$ 1,128	\$ 666

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### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (5) Grants Receivable

Grants receivable consist of amounts due from the following sources as of December 31, 2010 and 2009 (in thousands):

	<u>2010</u>		<u>2009</u>
Department of Labor	\$ 4,748	\$	10,366
Internal Revenue Service	1,568		1,263
Other	432		774
Total	<u>\$ 6,748</u>	\$	<u>12,403</u>

#### (6) Related-Party Transactions

##### (a) Contributions

AARP made cash contributions to the Foundation totaling \$11,304,000 and \$587,000 for the years ended December 31, 2010 and 2009, respectively, and contributed donated services valued at \$13,112,000 and \$10,246,000 for the years ended December 31, 2010 and 2009, respectively.

AARP contributions represented approximately 12% and 8% of the Foundation's operating revenue for the years ended December 31, 2010 and 2009, respectively.

##### (b) Postretirement Health Benefits Obligation

The Foundation participates in the AARP post-retirement health benefit program. A 1997 resolution by the AARP Board of Directors stated AARP's intent to assume responsibility for postretirement health benefits relating to the Foundation's employees. AARP currently funds these benefits as claims are received from eligible Foundation retirees.

##### (c) Office Space

Under a continuing operations agreement associated with the Foundation's office space located within the AARP headquarters building, certain shared facilities costs are billed to the Foundation by AARP, including utilities, maintenance, security and building management. These costs were approximately \$533,000 and \$566,000 in the years ended December 31, 2010 and 2009, respectively.

A portion of the Foundation's office space is occupied by Legal Counsel for the Elderly (LCE), an affiliate of AARP. LCE is exempt from federal taxation under Section 501(c)(3) of the IRC. The costs associated with this space were approximately \$334,000 and \$350,000 for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, LCE paid cash of \$110,000 and \$350,000, respectively, for occupying this space. The balance of the value of the space in 2010 was donated by the Foundation as an in-kind contribution.

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**(d) Grants to AARP**

The Foundation has awarded grants to AARP to further the Foundation's charitable purposes. Expenses of \$3,363,000 and \$3,086,000 were recognized for the years ended December 31, 2010 and 2009, respectively. Approximately \$1,188,000 and \$726,000 of the recognized amounts remained unpaid as of December 31, 2010 and 2009, respectively, and are included as a component of due to affiliates in the accompanying statements of financial position.

**(e) Due to or from Affiliates**

Amounts reported as due to or from affiliates included in the accompanying statements of financial position arise principally from the activities described above, and are settled on a quarterly basis. In addition, at the inception of the Tax Aide program, AARP advanced \$1,550,000 for direct expenses of the program. The outstanding balance on this cash advance at December 31, 2009 was \$1,550,000. The advance was repaid in full in December 2010.

**(7) Property and Equipment**

Property and equipment is summarized as follows at December 31, 2010 and 2009 (in thousands):

	<u>2010</u>		<u>2009</u>
Land	\$ 4,440	\$	4,440
Building and improvements	18,269		18,265
Equipment	328		328
Accumulated depreciation	<u>(4,698)</u>		<u>(3,914)</u>
Property and equipment, net	<u>\$ 18,339</u>	\$	<u>19,119</u>

**(8) Employee Health Care Benefits**

The Foundation participates with other AARP affiliates in the AARP Employees' Welfare Plan, which provides certain health care and other welfare benefits to active employees. The Welfare Plan receives contributions from all participating entities to provide benefits, based on expected costs of providing these benefits. Expenses incurred by the Foundation for health care benefits were \$2,704,000 and \$2,112,000 for the years ended December 31, 2010 and 2009, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2010 and 2009 was approximately \$390,000 and \$290,000, respectively, and is included as a component of accounts payable and accrued expenses in the accompanying statements of financial position.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (9) Bonds Payable

On October 21, 2004, the Foundation issued 30-year District of Columbia Variable Rate Revenue Bonds Series 2004 in the amount of \$25,000,000 to finance the purchase of office space in the AARP headquarters building. The face value of the bonds is repayable in full on October 20, 2034. The bonds bear interest at a rate determined by the Remarketing Agent based upon market conditions of reselling the bonds in a secondary market sale. Accrued interest is payable monthly. The rates on December 31, 2010 and 2009, respectively, were 0.41% and 0.25%. Total interest expense incurred for the years ended December 31, 2010 and 2009 was approximately \$73,000 and \$104,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

The fair value of the bonds approximates the carrying value, since the bond bears variable market interest rates.

The Foundation has obtained a letter of credit to secure repayment of the bond. The letter of credit constitutes an irrevocable obligation to pay the bond trustee up to an amount equal to the sum of the principal amount of the bonds outstanding, plus an amount equal to interest for 35 days on the principal amount of each bond outstanding.

AARP has entered into a Standby Bond Purchase Agreement with the Foundation and the issuer of the Letter of Credit to purchase all bonds in the event the Foundation defaults on the bonds under the terms and conditions of the agreement.

#### (10) Grant Revenue

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

	<u>2010</u>	<u>2009</u>
Department of Labor	\$ 126,452	\$ 91,325
Internal Revenue Service	6,572	5,208
Department of Housing and Urban Development	—	14
Department of Health and Human Services	189	163
State agencies	913	621
Corporations and foundations	8,163	5,775
Total	<u>\$ 142,289</u>	<u>\$ 103,106</u>

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (11) Program Services

The Foundation provides programs to help vulnerable older people meet their everyday essentials – food, housing, income and personal connection. Through community programs and services across the country, the Foundation helps seniors remain independent and live a better life.

During the years ended December 31, 2010 and 2009, the Foundation's programs were as follows:

The *WorkSearch* program provides direct services to adults seeking training and employment through two primary routes: the WorkSearch Assessment System and the Senior Community Service Employment Program (SCSEP). The WorkSearch Assessment System provides community-level job and career information and services to low and middle income adults who are seeking to remain in or re-enter the workforce. SCSEP provides subsidized assignments and job training for persons 55 and older whose income is at or below 125% of the federal poverty level. The SCSEP project is primarily funded by the U.S. Department of Labor. Department of Labor revenue represented approximately 61% and 63% of the Foundation's operating revenue for the years ended December 31, 2010 and 2009, respectively. The current federal grants to the Foundation expire on June 30, 2011.

*Tax-Aide* provides volunteer services for federal and state income tax preparation assistance to low and moderate income persons throughout the country, with special attention to those 60 and older. The Tax-Aide program is primarily funded by the Foundation and the Internal Revenue Service. The current federal grants to the Foundation expire on June 30, 2011 and September 30, 2011.

*Legal Advocacy* protects and preserves the rights of older Americans through both amicus curiae (friend of the court) briefs and third-party litigation.

*Other programs* provide information, counseling, training, and technical assistance to older persons and their service providers on various matters including asset protection, asset development, income generation and access to benefits.

Management anticipates that the Department of Labor and Internal Revenue Service grants will be renewed. The continuation of grant-funded programs beyond the expiration dates of current agreements is subject to future funding decisions by sponsoring agencies.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

#### (12) Allocation of Joint Costs

In 2010 and 2009, the Foundation conducted direct mail campaigns that included requests for contributions, as well as program components. The costs of conducting those activities are not specifically attributable to particular components of the activities (joint costs). These joint costs were allocated as follows (in thousands):

	<u>2010</u>		<u>2009</u>
Fundraising	\$ 774	\$	1,757
Program Services	240		301
Total	<u>\$ 1,014</u>	\$	<u>2,058</u>

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

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

All actuarially determined liabilities and assets relating to accrued pension are recorded on the books of AARP, Inc. Cash contributions to the Plan will be recorded as expenses in the year in which the contributions are due.

There were no employer contributions by the Foundation to the Plan in 2010 and 2009. The Foundation will not be required to make a contribution to the pension plan in 2011. However, supplemental contributions may be made that cannot be estimated at this time.

#### (14) Defined-Contribution Plan

The Foundation participates in a single-employer defined-contribution plan called the AARP Employees' 401(k) Plan. To participate in the 401(k) Plan, an employee must be at least 18 years of age and have been employed for a minimum of one month of continuous service with the Foundation.

The Foundation makes contributions to the 401(k) Plan for its employees, matching employee contributions at 100% of the first 3%, and 50% of the next 2% of employee compensation up to the maximum limits allowed by law. As part of a cost containment program, the employer match was suspended for the period April 1, 2009 through December 31, 2009. Matching contributions resumed on January 1, 2010.

Employer contributions totaled \$782,000 and \$193,000 for the years ended December 31, 2010 and 2009, respectively.

**AARP FOUNDATION**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

**(15) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of December 31, 2010 and 2009 (in thousands):

	<b>2010</b>	<b>2009</b>
Purpose-restricted:		
SCSEP	\$ 3,444	\$ 3,444
Hunger program	2,000	—
Other programs	1,204	646
Total purpose-restricted	6,648	4,090
Time-restricted	1,485	1,767
Total	\$ 8,133	\$ 5,857

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors during 2010 and 2009, as follows (in thousands):

	<b>2010</b>	<b>2009</b>
Purpose-restricted releases:		
Other programs	\$ 511	\$ 285
Fundraising	—	1,818
Total purpose-restricted	511	2,103
Time-restricted	1,381	650
Total	\$ 1,892	\$ 2,753

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

The Foundation Board has established a board-designated quasi-endowment fund, and has adopted a policy under which certain contributions are designated to the fund.

The Board also adopted a spending policy, which permits an annual transfer to operating funds of up to 5% of the previous 12 quarters average quasi-endowment fund balance. Assets of the quasi-endowment fund are invested in a broadly diversified portfolio spread over multiple asset classes.

## AARP FOUNDATION

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The transactions affecting the board-designated quasi-endowment are summarized as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Board-designated quasi-endowment, January 1	\$ 13,419	\$ 11,115
Interest and dividends	310	425
Realized and unrealized gains	1,440	2,130
Designations	736	496
Appropriation for spending	<u>(687)</u>	<u>(747)</u>
Board-designated quasi-endowment, December 31	<u>\$ 15,218</u>	<u>\$ 13,419</u>

#### (17) Contingencies

The Foundation is a party to various claims and potential legal actions. Management believes, based upon advice of counsel, that the disposition of these matters will not have a significant effect on the financial position of the Foundation.

The Foundation receives a substantial portion of its revenue from government grants, which are subject to audit by various federal and state agencies. The ultimate determination of amounts received under these grants generally is based upon allowable costs reported to and audited by the governments or their designees. The liabilities, if any, arising from such compliance audits cannot be determined at this time. In the opinion of management, adjustments resulting from such audits, if any, will not have a significant effect on the financial position of the Foundation.

The Foundation leases office space in a number of states to facilitate the local delivery of its programs, under short-term operating leases with various lease terms. Total rent incurred under operating leases was approximately \$1,744,000 and \$1,667,000 for the years ended December 31, 2010 and 2009, respectively.

#### (18) Subsequent Events

The Foundation has evaluated subsequent events through the date the financial statements were issued, March 21, 2011.

## AARP FOUNDATION

## Schedule of Functional Expenses

Year ended December 31, 2010

(with comparative totals for the year ended December 31, 2009)

(In thousands)

	Program services				Supporting services			2010 Total expenses	2009 Total expenses	
	WorkSearch	Tax-Aide	Legal Advocacy	Other programs	Total program services	Fundraising	Management and general			Total supporting services
Expenses:										
Enrollee wages and benefits	\$ 107,889	\$ —	\$ —	\$ —	\$ 107,889	\$ —	\$ —	\$ —	\$ 107,889	\$ 76,065
In-kind supervisory salaries	18,500	—	—	—	18,500	—	—	—	18,500	15,611
In-kind services from AARP and others	1,331	2,253	523	2,104	6,211	2,310	4,703	7,013	13,224	10,297
Compensation and temporary labor	11,788	1,664	3,519	3,905	20,876	2,886	2,099	4,985	25,861	21,557
Printing and postage	244	634	40	538	1,456	4,305	9	4,314	5,770	5,507
Promotion	162	6	—	335	503	462	210	672	1,175	596
Volunteers	94	5,620	—	122	5,836	—	105	105	5,941	6,340
Meetings and travel	927	52	35	364	1,378	71	126	197	1,575	1,179
Occupancy	1,683	92	93	329	2,197	92	53	145	2,342	2,283
Telecommunications	643	61	10	81	795	20	11	31	826	728
Office supplies and equipment	1,247	1,915	39	139	3,340	12	17	29	3,369	3,071
Consulting and professional services	270	111	193	1,046	1,620	937	1,319	2,256	3,876	4,500
Data processing	1,194	120	—	145	1,459	586	15	601	2,060	1,060
Depreciation and amortization	116	102	139	231	588	138	75	213	801	824
Insurance and taxes	57	49	67	111	284	66	81	147	431	508
Interest	10	13	12	20	55	12	6	18	73	105
Grant awards	298	—	69	8,416	8,783	—	16	16	8,799	5,093
Miscellaneous	285	40	20	389	734	146	103	249	983	1,296
Total expenses	\$ 146,738	\$ 12,732	\$ 4,759	\$ 18,275	\$ 182,504	\$ 12,043	\$ 8,948	\$ 20,991	\$ 203,495	\$ 156,620

See accompanying independent auditors' report.