

Financial Statements and Report of  
Independent Certified Public  
Accountants

**AARP Foundation**

December 31, 2019 and 2018

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors of  
**AARP Foundation:**

We have audited the accompanying financial statements of AARP Foundation (the “Foundation”), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s responsibility**

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AARP Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Washington, D.C.  
March 17, 2020

**AARP Foundation**

**STATEMENTS OF FINANCIAL POSITION**

**As of December 31,  
(in thousands)**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 23,090	\$ 12,071
Contributions receivable (Note 2)	2,100	684
Grants receivable (Notes 2 and 6)	11,484	8,579
Prepaid expenses and other assets	1,120	2,402
Investments (Notes 2 and 4)	534,484	389,043
Charitable gift annuity investments (Notes 2 and 4)	5,210	4,815
Program-related investments, net (Notes 2 and 5)	6,166	5,900
Property and equipment, net (Notes 2 and 8)	14,997	15,836
Total assets	\$ 598,651	\$ 439,330
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 29,061	\$ 21,275
Deferred revenue (Note 2)	171	3,305
Due to affiliates (Note 7)	7,200	116
Charitable gift annuities payable (Note 2)	3,050	3,055
Bonds payable (Note 9)	25,000	25,000
Total liabilities	64,482	52,751
Commitments and contingencies (Notes 7, 13, 14, 15 and 18)		
<b>NET ASSETS</b>		
Net assets without donor restrictions:		
Undesignated (Note 2)	29,396	18,029
Board designated quasi-endowment (Notes 2 and 17)	23,940	19,989
Board designated operating reserves (Note 2)	58,752	57,469
Total net assets without donor restrictions	112,088	95,487
Net assets with donor restrictions (Notes 2, 16 and 17)	422,081	291,092
Total net assets	534,169	386,579
Total liabilities and net assets	\$ 598,651	\$ 439,330

The accompanying notes are an integral part of these financial statements.

**AARP Foundation**

**STATEMENT OF ACTIVITIES**

**For the year ended December 31, 2019**  
(in thousands)

	<b>Changes in net assets</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>OPERATING REVENUE</b>			
Grant revenue (Notes 2 and 10)	\$ 103,158	\$ -	\$ 103,158
Contributions (Notes 2, 7 and 17)	78,888	81,855	160,743
In-kind contributions (Notes 2 and 7)	55,082	-	55,082
Investment return designated for operations (Notes 2 and 17)	5,191	-	5,191
Other	1,387	-	1,387
Net assets released from restrictions (Note 16)	3,184	(3,184)	-
Total operating revenue	<u>246,890</u>	<u>78,671</u>	<u>325,561</u>
<b>OPERATING EXPENSES</b>			
Program services (Notes 1, 11 and 12):			
Senior Community Service Employment			
Program (SCSEP)	105,995	-	105,995
Tax-Aide	22,184	-	22,184
Experience Corps	12,593	-	12,593
Impact areas and other programs	45,557	-	45,557
Legal advocacy	6,008	-	6,008
Total program services	<u>192,337</u>	<u>-</u>	<u>192,337</u>
Supporting services (Notes 11 and 12):			
Fundraising	26,938	-	26,938
Management and general	21,116	-	21,116
Total supporting services	<u>48,054</u>	<u>-</u>	<u>48,054</u>
Total expenses	<u>240,391</u>	<u>-</u>	<u>240,391</u>
Change in net assets from operating activities	6,499	78,671	85,170
<b>NON-OPERATING ACTIVITY</b>			
Investment return in excess of amounts designated for operations (Notes 2 and 17)	10,292	52,318	62,610
Change in value of charitable gift annuities	(190)	-	(190)
Change in net assets	<u>16,601</u>	<u>130,989</u>	<u>147,590</u>
<b>Net assets, beginning of year</b>	<u>95,487</u>	<u>291,092</u>	<u>386,579</u>
<b>Net assets, end of year</b>	<u>\$ 112,088</u>	<u>\$ 422,081</u>	<u>\$ 534,169</u>

The accompanying notes are an integral part of this financial statement.

**AARP Foundation**

**STATEMENT OF ACTIVITIES**

**For the year ended December 31, 2018**  
(in thousands)

	<b>Changes in net assets</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>OPERATING REVENUE</b>			
Grant revenue (Notes 2 and 10)	\$ 92,667	\$ -	\$ 92,667
Contributions (Notes 2, 7 and 17)	74,518	80,191	154,709
In-kind contributions (Notes 2 and 7)	53,087	-	53,087
Investment return designated for operations (Notes 2 and 17)	4,564	-	4,564
Other	1,134	-	1,134
Net assets released from restrictions (Note 16)	2,655	(2,655)	-
Total operating revenue	<u>228,625</u>	<u>77,536</u>	<u>306,161</u>
<b>OPERATING EXPENSES</b>			
Program services (Notes 1, 11 and 12):			
Senior Community Service Employment Program (SCSEP)			
	102,660	-	102,660
Tax-Aide	14,564	-	14,564
Experience Corps	12,801	-	12,801
Impact areas and other programs	40,337	-	40,337
Legal advocacy	5,659	-	5,659
Total program services	<u>176,021</u>	<u>-</u>	<u>176,021</u>
Supporting services (Notes 11 and 12):			
Fundraising	25,662	-	25,662
Management and general	21,138	-	21,138
Total supporting services	<u>46,800</u>	<u>-</u>	<u>46,800</u>
Total expenses	<u>222,821</u>	<u>-</u>	<u>222,821</u>
Change in net assets from operating activities	5,804	77,536	83,340
<b>NON-OPERATING ACTIVITY</b>			
Investment return in excess of amounts designated for operations (Notes 2 and 17)	(8,213)	(13,177)	(21,390)
Change in value of charitable gift annuities	(32)	-	(32)
Change in net assets	<u>(2,441)</u>	<u>64,359</u>	<u>61,918</u>
<b>Net assets, beginning of year</b>	<u>97,928</u>	<u>226,733</u>	<u>324,661</u>
<b>Net assets, end of year</b>	<u>\$ 95,487</u>	<u>\$ 291,092</u>	<u>\$ 386,579</u>

The accompanying notes are an integral part of this financial statement.

**AARP Foundation**

**STATEMENTS OF CASH FLOWS**

**For the years ended December 31,  
(in thousands)**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 147,590	\$ 61,918
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,407	1,375
Loss on disposal of property and equipment	-	25
Amortization of debt issuance costs	17	17
Net realized and unrealized (gain) loss on investments	(61,335)	21,356
Transfer of investments from AARP, Inc. (Notes 4, 7 and 17)	(68,318)	(36,976)
Change in present value discount of program-related investments	(266)	(254)
Change in value of charitable gift annuities	190	32
Changes in operating assets and liabilities:		
Contributions receivable	(1,416)	(129)
Grants receivable	(2,905)	2,100
Prepaid expenses and other assets	1,265	49
Accounts payable and accrued expenses	7,786	(2,567)
Deferred revenue	(3,134)	(2,768)
Due to affiliates	7,084	(76)
Charitable gift annuities payable	(195)	(149)
Net cash provided by operating activities	27,770	43,953
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(568)	-
Proceeds from program-related investments	-	82
Purchase of investments	(700,022)	(602,182)
Proceeds from sales and maturities of investments	683,839	561,031
Net cash used in investing activities	(16,751)	(41,069)
Net increase in cash and cash equivalents	11,019	2,884
<b>Cash and cash equivalents, beginning of year</b>	12,071	9,187
<b>Cash and cash equivalents, end of year</b>	\$ 23,090	\$ 12,071
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 385	\$ 353

The accompanying notes are an integral part of these financial statements.



## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

#### NOTE 1 - DESCRIPTION OF ORGANIZATION AND PROGRAMS

AARP Foundation (the "Foundation") serves vulnerable people 50 and older by creating and advancing effective solutions that help them secure the essentials. The Foundation works to ensure that low-income, vulnerable people 50 and older have nutritious food, affordable housing, a steady income and strong and sustaining social bonds. The Foundation collaborates with individuals and organizations who share the same commitment to innovation and passion for problem solving. Supported by vigorous legal advocacy, the Foundation creates and advances effective solutions that help struggling older adults transform their lives.

The Foundation was incorporated in 1961 as a District of Columbia not-for-profit corporation. The Foundation is a not-for-profit 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 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 former affiliate of AARP Foundation, was incorporated in 1963 as a District of Columbia not-for-profit corporation. The Institute was a nonprofit organization qualified under Section 501(c)(3) of the IRC and was, therefore, exempt from federal income taxes on its charitable operations. In addition, the Institute was a supporting organization as defined in Section 509(a)(3) of the IRC.

In November 2018, the Boards of the Foundation and the Institute agreed to a merger between the two organizations, effective immediately. When the merger was completed, the assets and liabilities formerly owned by Institute became assets and liabilities of the Foundation. In March 2019, the Institute was legally dissolved and no longer exists as a separate legal entity.

On January 9, 2015, the Foundation acquired a controlling voting interest in AARP Experience Corps ("EC"). EC is a nonprofit organization qualified under Section 501(c)(3) of the IRC and is, therefore, exempt from federal income tax on its charitable operations. EC was incorporated on September 10, 2008 under the laws of the District of Columbia. In February 2018, EC was legally dissolved and no longer exists as a separate legal entity.

During the years ended December 31, 2019 and 2018, the Foundation's programs were as follows:

The AARP Foundation *Senior Community Service Employment Program* ("SCSEP") provides direct services nationwide to adults seeking training and employment. SCSEP provides subsidized assignments and job training for eligible participants. SCSEP is primarily funded by the U.S. Department of Labor. Support from the U.S. Department of Labor represented approximately 22% and 23%, respectively, of the Foundation's operating revenue for each of the years ended December 31, 2019 and 2018. The current federal grants to the Foundation expire on June 30, 2020 and are expected to be renewed.

*AARP Foundation Tax Aide* ("Tax-Aide") provides free federal and state income tax preparation assistance to low and moderate income persons throughout the country. The Tax Aide program is primarily funded by the Foundation and the Internal Revenue Service ("IRS"). The current federal grants to the Foundation expire on June 30, 2020 and September 30, 2020, respectively, and are both expected to be renewed.

*AARP Foundation Experience Corps* ("Experience Corps") is a community-based, volunteer tutoring program that addresses a major contributor to poverty - the inability of children in kindergarten through third grade to read at grade level. The Experience Corps model is a proven intervention with measurable benefits for students, as well as positive mental and physical health benefits for the older volunteers who tutor the children.

## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

*Impact Areas and Other Programs* target the vast and multifaceted daily challenges that so many low-income vulnerable older adults face. The Foundation's efforts target four-interrelated priorities where action will have the greatest impact: empowering people to earn a living, making homes accessible and more affordable, improving food security and helping to build strong sustaining social bonds.

*Legal Advocacy* - The Foundation advocates in courts nationwide for the rights of people 50 and older, challenging discrimination and helping to protect older adults from injustice. These efforts - age and housing discrimination, fraud, benefits, employee benefits, health and long-term care - ensure people 50 and older have a voice in the laws and policies that affect their daily lives.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### ***Basis of Presentation***

These financial statements include the accounts of AARP Foundation and the former Institute (collectively, the "Foundation"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Foundation prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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:

Net assets without donor restrictions - net assets that are not subject to donor imposed stipulations including amounts designated by the Board of Directors to function as quasi-endowment (Note 17) and operating reserves. The operating reserve is intended to provide funds to ensure the continued operation of the Foundation's programs in the event of an unexpected interruption in revenue streams. The amount of this operating reserve is determined annually.

Net assets with donor restrictions - net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time (Note 16). In addition, net assets with donor restrictions also includes net assets whereby the respective donors have stipulated that the principal contributed be invested and maintained in perpetuity (Note 17). Income earned from these investments is available for expenditures according to restrictions, if any, imposed by the donor.

In 2019, the Foundation adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional. As required by ASU 2018-08, the Foundation applied the requirements of this standard to agreements that either were not completed as of December 31, 2018 or entered into after January 1, 2019.

##### ***Measure of Operations***

All activities, other than investment returns in excess of amounts designated for operations and the change in value of charitable gift annuities, are reported as change in net assets from operating activities within the accompanying statements of activities. Investment return designated for operations is calculated in accordance with a Board-approved spending policy (Note 17), and includes returns on both Board-designated and undesignated investment funds.

## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

#### ***Cash and Cash Equivalents***

Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase. Cash and cash equivalents managed by the Foundation's investment managers as part of its long-term investment strategy are included in investments within the accompanying statements of financial position.

#### ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and investments in U.S. treasury securities, fixed income funds, equity funds and similar interests. The Foundation maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Foundation's cash and cash equivalent accounts have been placed with high credit quality financial institutions that are evaluated regularly. The Foundation has not experienced, nor does it anticipate, any losses with respect to such accounts. Cash held at individual institutions that exceeded federally insured limits, totaled approximately \$23,052,000 and \$12,380,000 at December 31, 2019 and 2018, respectively.

#### ***Grants and Contributions***

In 2018, grant revenue was recognized to the extent allowable expenses were incurred and contributions, including unconditional promises to give, were recognized in the period received or pledged.

Beginning in 2019, with the adoption of ASU 2018-08, the Foundation recognizes government and private contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or right of release from the respective obligation provision on the part of the grantor and the Foundation has limited discretion over how funds transferred should be spent. As such, the Foundation recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

The Foundation reports contributions within net assets with donor restrictions if such gifts are restricted by the donor to a specific program and/or include an explicit or implied time restriction. Expirations of 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 within net assets without donor restrictions.

Amounts reported as grants receivable, within the accompanying statements of financial position, represent expenses incurred in advance of the receipt of funds. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying statements of financial position.

As of December 31, 2019, grants and contributions receivable of approximately \$13.1 million were due to be collected within one year, and approximately \$486,000 was due to be collected in 2021. As of December 31, 2018, all grants and contributions receivable were due to be collected within one year.

Due to the adoption of ASU 2018-08, as of December 31, 2019, the Foundation's outstanding conditional contributions totaled approximately \$47.5 million, which will be recognized as revenue as conditions are met. As of December 31, 2018, the Foundation did not have any conditional contributions. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying statements of financial position.

## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

#### *In-kind Contributions*

The Foundation's in-kind contributions principally consist of services donated by AARP, Inc. (Note 7) and the fair value of supervisory salaries donated to the Foundation's SCSEP program. These contributed services are recorded as both revenue and expenses in the accompanying statements of activities. Donated supervisory salaries and other in-kind contributions from non-related parties of approximately \$22,192,000 and \$20,685,000 were recognized for the years ended December 31, 2019 and 2018, respectively.

Approximately 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. GAAP and, accordingly, are not reflected in the accompanying financial statements.

#### ***Allowance for Uncollectible Accounts***

The carrying value of contributions, programmatic loans and grants receivable is reduced by an appropriate allowance, if needed, for uncollectible accounts. The Foundation determines its allowance by considering a number of factors, including the length of time receivables are past due, the Foundation's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy. Receivables outstanding longer than the payment terms are considered past due. The Foundation writes off contributions, programmatic loans and grants receivables when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received. As of December 31, 2019 and 2018, management did not record an allowance for either contributions, programmatic loans or grants receivable, as all balances were deemed collectible.

#### ***Investments***

Investments are measured and reported at fair value. Changes in fair value and gains and/or losses are reported as part of investment return in the accompanying statements of activities.

The fair value of debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges as of the measurement date. The fair value of non-U.S. Treasury debt securities is determined by a nationally recognized independent pricing service.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

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 fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying statements of financial position.

#### ***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 an entity'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.

## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 and, therefore, require other pricing assumptions or methodologies in the determination of fair value.

The Foundation's interests in alternative investments funds such as private equity, real estate and hedge funds are reported at the net asset value ("NAV") per share by the fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. These funds, which use NAV as a practical expedient to estimate fair value, are not classified in the fair value hierarchy.

#### ***Program-Related Investments, net***

The Foundation makes program-related investments in order to achieve charitable purposes in alignment with the Foundation's mission. The Foundation's investments consist of programmatic loans bearing a below-market interest rate. Programmatic loans are measured at fair value at inception, and are initially recorded on a net basis to reflect a discount on loans receivable (Note 5). The loss reserve estimate is reviewed on an annual basis and adjusted if collectability risk has significantly changed, based on the Foundation's understanding of the borrower's financial health and/or payment history.

#### ***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 stated 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 in the accompanying statements of activities.

The assets held for all charitable gift annuities are reported within the charitable gift annuity investments in the accompanying statements of financial position and are stated at fair value. Liabilities for the expected annuity payments are reported at the estimated present value of future cash outflows, based on appropriate discount rates and mortality tables and are reported within accounts payable and accrued expenses in the accompanying statements of financial position. Discount rates used ranged from 1.2% to 7.6%. The Foundation invests its charitable gift annuities in accordance with relevant state laws.

#### ***Property and Equipment, net***

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.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

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 office space improvements, and three years for equipment. Land is not subject to depreciation. Maintenance and repair costs are expensed as incurred.

***Income Taxes***

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation is exempt from income tax under IRC Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the IRC. The Foundation has processes in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Foundation has determined that there are no significant uncertain tax positions that require recognition or disclosure in the accompanying financial statements.

***Use of Estimates***

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

***Reclassifications***

Certain information in the 2018 financial statements has been reclassified to conform to the 2019 presentation. These reclassifications did not result in any changes to total assets, liabilities, revenues, expenses or net assets reported in the 2018 financial statements.

**NOTE 3 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of December 31, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure follow (in thousands):

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 23,090	\$ 12,071
Contributions and grants receivable	13,098	9,263
Program related investments, net	542	-
Investments and charitable gift annuity investments:		
Level 1	84,413	109,060
Level 2	58,680	43,452
Institutional mutual funds	396,601	229,618
Less: Board designated funds (quasi-endowment and operating reserves)	(82,692)	(77,458)
Less: Net assets with donor restrictions	(422,081)	(291,092)
	<u>\$ 71,651</u>	<u>\$ 34,914</u>
Total financial assets available within one year		

The Foundation maintains cash balances at a level designed to ensure short-term liquidity. In addition, a suitable proportion of the Foundation’s investment balances are held in instruments that can readily be converted to cash, if needed. The Foundation prepares and monitors a 12-month rolling cash-flow forecast in order to identify and address any threats to short-term liquidity.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 4 - INVESTMENTS AND CHARITABLE GIFT ANNUITY INVESTMENTS**

The composition of the Foundation's investments, as of December 31, 2019, follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments:				
Equity securities and funds:				
Emerging markets	\$ -	\$ -	\$ 1,455	\$ 1,455
Global and international	11,536	-	138,075	149,611
U.S. large-mid cap	13,115	-	82,351	95,466
U.S. small cap	11,544	-	-	11,544
Fixed-income securities and funds:				
Global and international	-	3,498	26,335	29,833
High-yield	-	-	16,254	16,254
International government	-	315	-	315
Mortgage and asset-backed	-	40,903	-	40,903
U.S. corporate and investment grade	18,247	13,372	1,286	32,905
U.S. fixed income	-	-	6,830	6,830
U.S. government and treasury securities	23,693	-	-	23,693
Municipal	-	407	-	407
Hedge funds:				
Global macro	-	-	11,437	11,437
Multi-strategy	-	-	18,670	18,670
Equity long/short	-	-	8,307	8,307
Equity market neutral	-	-	4,354	4,354
Equity driven/credit	-	-	10,881	10,881
Private equity funds:				
Private equity fund - Global	-	-	3,979	3,979
Private equity fund - U.S.	-	-	12,286	12,286
Real assets and commodity funds:				
Commingled real asset funds - U.S.	-	-	51,442	51,442
Private real asset funds	-	-	2,659	2,659
Sub-total	78,135	58,495	396,601	533,231
Cash and cash equivalents held for investment				1,253
Total investments				\$ 534,484
Charitable gift annuity investments:				
Equity securities and funds:				
U.S. large-mid cap	\$ 1,677	\$ -	\$ -	\$ 1,677
U.S. small cap	161	-	-	161
Global and international	564	-	-	564
Emerging markets	151	-	-	151
Fixed income securities and funds:				
Global and international	178	-	-	178
U.S. corporate and investment grade	396	-	-	396
U.S. fixed income	1,412	-	-	1,412
Mortgage and asset-backed	-	185	-	185
Short-term	267	-	-	267
U.S. government and treasury securities	90	-	-	90
Sub-total	4,896	185	-	5,081
Cash and cash equivalents held for investment				129
Total charity gift annuity investments				\$ 5,210

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

The composition of the Foundation's investments, as of December 31, 2018, follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>Total</u>
Investments:				
Equity securities and funds:				
Emerging markets	\$ 8,687	\$ -	\$ 655	\$ 9,342
Global and international	35,568	-	22,357	57,925
U.S. large-mid cap	15,421	-	41,544	56,965
U.S. small cap	9,459	-	-	9,459
Fixed-income securities and funds:				
Global and international	-	3,202	24,098	27,300
High-yield	-	-	14,510	14,510
International government	-	252	-	252
Mortgage and asset-backed	-	28,445	-	28,445
U.S. corporate and investment grade	9,208	11,428	-	20,636
U.S. fixed income	-	36	10,730	10,766
U.S. government and treasury securities	26,220	-	-	26,220
Hedge funds:				
Global macro	-	-	10,362	10,362
Multi-strategy	-	-	18,276	18,276
Equity long/short	-	-	7,947	7,947
Equity market neutral	-	-	4,004	4,004
Equity driven/credit	-	-	10,076	10,076
Private equity funds:				
Private equity fund - Global	-	-	1,370	1,370
Private equity fund - U.S.	-	-	4,184	4,184
Real assets and commodity funds:				
Commingled real asset funds - U.S.	-	-	49,977	49,977
Commingled real asset funds	-	-	15,082	15,082
Private real asset funds	-	-	1,129	1,129
Sub-total	<u>104,563</u>	<u>43,363</u>	<u>236,301</u>	<u>384,227</u>
Cash and cash equivalents held for investment				<u>4,816</u>
Total investments				<u>\$ 389,043</u>
Charitable gift annuity investments:				
Equity securities and funds:				
U.S. large-mid cap	\$ 1,911	\$ -	\$ -	\$ 1,911
U.S. small cap	129	-	-	129
Emerging markets	122	-	-	122
Fixed income securities and funds:				
Global and international	163	-	-	163
U.S. corporate and investment grade	294	-	-	294
U.S. fixed income	1,336	-	-	1,336
Mortgage and asset-backed	-	89	-	89
Short-term	409	-	-	409
U.S. government and treasury securities	133	-	-	133
Sub-total	<u>4,497</u>	<u>89</u>	<u>-</u>	<u>4,586</u>
Cash and cash equivalents held for investment				<u>229</u>
Total charity gift annuity investments				<u>\$ 4,815</u>



**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

Information with respect to redemption terms, strategies, risks, and funding commitments for investments reported at NAV, follows (in thousands):

	2019 NAV	Unfunded commitments	2018 NAV	Redemption frequency	Redemption notice period	Redemption restrictions
Institutional mutual funds:						
U.S. large-mid cap equity (a)	\$ 82,351	n/a	\$ 41,544	Daily	2 days	n/a
U.S. corporate and investment grade (b)	1,286	n/a	-	Daily	None	n/a
Emerging markets equity (c)	1,455	n/a	655	Semi-monthly	2 days	n/a
Global and international equity (d)	138,075	n/a	22,357	Semi-monthly	2 days	n/a
Global and international fixed income (e)	26,335	n/a	24,098	Quarterly	30 days	n/a
U.S. fixed income (f)	6,830	n/a	10,730	Daily	None or 2 days	n/a
High-yield (g)	16,254	n/a	14,510	Monthly	10 days or 45 days	n/a
Hedge funds:						
Multi-strategy (h)	18,670	n/a	18,276	Semi-monthly, monthly, Bi-annually	45 - 75 days	None
Equity long/short (i)	8,307	n/a	7,947	Monthly, quarterly	30 days	Lock-up provisions range from none to 1 year
Global macro (j)	11,437	n/a	10,362	Monthly	2-25 days	None
Equity market neutral (k)	4,354	n/a	4,004	Monthly	90 days	None
Event driven/credit (l)	10,881	n/a	10,076	Quarterly	60 days	None
Real assets and commodity funds:						
Commingled real asset funds (m)	-	n/a	15,082	Daily	None	n/a
Commingled real asset funds - U.S. (n)	51,442	n/a	49,977	Quarterly	45-90 days	n/a
Private real estate funds - U.S. (o)	2,659	9,647	1,129	n/a	n/a	n/a
Private real estate funds - Global (p)	-	7,000	-	Quarterly	90 days	n/a
Private equity funds:						
Private equity fund - global (q)	3,979	9,357	1,370	n/a	n/a	n/a
Private equity fund - U.S. (r)	12,286	26,833	4,184	n/a	n/a	n/a
	<u>\$ 396,601</u>	<u>\$ 52,837</u>	<u>\$ 236,301</u>			

The classes of assets consist of the following:

- (a) An investment in two funds that employ a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.
- (b) A single active fund which seeks long-term return in excess of the broad U.S. bond market.
- (c) An investment in a fund that employs a passive investment strategy seeking to replicate the performance of an emerging market benchmark.
- (d) Comprises several institutional mutual funds, which employ both active and passive investment strategies, seeking to replicate or exceed various well-known global market indices.
- (e) An investment in two institutional mutual funds. One fund seeks to replicate the performance of a global, developed market index. The other fund employs an active approach as it seeks to outperform the same global index.
- (f) An investment managed by a fund manager, who employs four different sector funds in an effort to exceed the performance of a well-known fixed-income index.
- (g) Two funds that invest in high-yield bonds.

## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

- (h) Consists of investments in several hedge funds that use multiple strategies to obtain absolute returns and long-term capital appreciation. The investment strategies include, but are not limited to, relative value, event driven, risk or merger arbitrage, long/short equity, convertible/derivative arbitrage, capital structure arbitrage and credit and structured credit opportunities. The funds invest in equity securities, debt securities, derivatives, and other financial instruments.
- (i) Consists of hedge funds that invest in equity securities that use long/short strategies. These funds invest in securities of both U.S. and foreign issuers and invest in a wide range of instruments including, but not limited to, equity, futures, derivatives and debt securities to achieve long-term capital appreciation.
- (j) A hedge fund that consists of an equity-focused portfolio with sector-specific, market neutral sub-portfolios to achieve long-term appreciation. This hedge fund also employs various complementary equity-focused investment strategies and may also invest in convertible bonds and other credit-based instruments.
- (k) Consists of hedge funds that employ an event driven strategy. These funds are credit/debt-focused with the objective of earning superior risk-adjusted returns. These funds seek to exploit situations to invest in securities and financial instruments, mergers and acquisitions (or "risk") arbitrage situations and convertible arbitrage situations, both in the U.S. and globally.
- (l) Includes investments in both equity funds and a fixed income fund. The funds can provide inflation protection potential, added diversifications outside of equities and fixed-income investments, and finally, additional sources of absolute return and income. During periods of 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.
- (m) Included investments in commingled funds that invest in multi-family, industrial, retail and commercial real estate located in the U.S. with the objective of seeking attractive returns, primarily through income and to a less extent capital appreciation, while limiting downside risk. The funds have both relative and real return objectives.
- (n) Includes investments in real estate funds, private real estate partnerships and other structured investment vehicles that own real estate and real estate related assets. The investment objective of this class is attractive returns with lower levels of risk compare with direct primary investments in real estate vehicles. This asset class provides diversification across geographies, managers and investment strategies. It is estimated that the underlying assets will be liquidated over the next 3 to 13 years.
- (o) Consists of one open-ended private fund which seeks to invest in a diversified portfolio of global infrastructure real assets within the U.S. and Western Europe. The fund seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives.
- (p) Includes one open-ended private fund which seeks to invest in a diversified portfolio of global infrastructure real assets within the U.S. and Western Europe. The Fund seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives.
- (q) Includes investments in a private equity fund that focuses on global investments in equity and other interests in business operations, with the principal objective of appreciation of capital invested. The nature of the investments in this class is such that distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next 6-11 years.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

- (r) Includes investments in private equity funds with a focus on early through late stage U.S. companies with high potential growth, primarily in technology and healthcare related industries. The nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 3-12 years.

**NOTE 5 - PROGRAM-RELATED INVESTMENTS, NET**

Program related investments presented in the accompanying statements of financial position represent various below-market-rate programmatic loans with outstanding principal balances totaling approximately \$7,542,000 as of both December 31, 2019 and 2018. The interest rate on these programmatic loans was 2% for each of the years ended December 31, 2019 and 2018. The loans are individually monitored to determine the net realizable value based on an evaluation of recoverability. In 2018, the Foundation received principal repayments of approximately \$82,000. The Foundation did not receive any principal repayments in 2019.

Loans receivable, at the present value of expected cash flows, were scheduled for collection as of December 31, 2019 and 2018 as follows (in thousands):

	<b>2019</b>	<b>2018</b>
2020	\$ 542	\$ 542
2021 - 2027	7,000	7,000
	7,542	7,542
Less: present value discount	(1,376)	(1,642)
Total program-related investments, net	<b>\$ 6,166</b>	<b>\$ 5,900</b>

The Foundation has a total of seven (7) loans outstanding at an average face amount of approximately \$1,077,000 as of both December 31, 2019 and 2018. The average carrying amount of each loan totaled approximately \$881,000 and \$842,000, as of December 31, 2019 and 2018, respectively.

**NOTE 6 - GRANTS RECEIVABLE**

Grants receivable consisted of amounts due from the following sources as of December 31, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
U.S. Department of Labor	\$ 6,871	\$ 5,803
Internal Revenue Service	1,819	1,320
Corporation for National and Community Service	727	752
Other	2,067	704
Total	<b>\$ 11,484</b>	<b>\$ 8,579</b>

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 7 - RELATED PARTY TRANSACTIONS**

***Contributions***

AARP, Inc. made contributions to the Foundation totaling approximately \$101,863,000 and \$101,600,000 for the years ended December 31, 2019 and 2018, respectively, including transfers of cash and investments valued at \$78,918,000 and \$76,976,000, respectively, to establish a restricted endowment fund (Note 17).

In addition, AARP, Inc. contributed donated services valued at approximately \$32,890,000 and \$32,402,000 for the years ended December 31, 2019 and 2018, respectively, which are included within in-kind contributions in the accompanying statements of activities.

AARP, Inc. contributions represented approximately 41% and 44% of the Foundation's total operating revenue for the years ended December 31, 2019 and 2018, respectively.

***Postretirement Health Benefits Obligation***

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

***Office Space***

The Foundation's office space located within the AARP, Inc. headquarters building, is subject to certain shared facilities costs which are billed to the Foundation by AARP, Inc., including utilities, maintenance, security and building management. These costs totaled approximately \$857,000 and \$639,000 for the years ended December 31, 2019 and 2018, respectively.

***Grants to AARP, Inc.***

The Foundation has awarded grants to AARP, Inc. to further the Foundation's charitable purposes, for which expenses of approximately \$12,545,000 and \$5,087,000 were recognized for the years ended December 31, 2019 and 2018, respectively.

***Insurance Premiums***

The Foundation purchases certain insurance coverage from Andrus Insurance Fund, LLC, an affiliate of AARP, Inc. The Foundation's insurance expense for such coverage totaled approximately \$2,253,000 and \$2,162,000 for the years ended December 31, 2019 and 2018, respectively.

***Due to/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 typically settled on a monthly basis.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 8 - PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, is summarized as follows at December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Land	\$ 4,440	\$ 4,440
Office space and improvements	22,871	22,795
Equipment	<u>2,777</u>	<u>2,285</u>
	30,088	29,520
Accumulated depreciation	<u>(15,091)</u>	<u>(13,684)</u>
Property and equipment, net	<u>\$ 14,997</u>	<u>\$ 15,836</u>

**NOTE 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, Inc. headquarters building. The face value of the bonds is repayable in full on October 20, 2034. 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 rates at December 31, 2019 and 2018, were 1.72% and 1.81%, respectively. Interest expense incurred for the years ended December 31, 2019 and 2018 totaled approximately \$375,000 and \$363,000, respectively. The Foundation may elect at any time to convert to a fixed interest rate.

The Foundation has obtained a letter of credit to secure repayment of the bonds. 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 the bonds outstanding. There was no outstanding balance on the letter of credit as of December 31, 2019 and 2018. The Foundation's letter of credit expires October 21, 2020.

AARP, Inc. 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.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 10 - GRANT REVENUE**

Grant revenue from the following sources was recognized for the years ended December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
U.S. Department of Labor	\$ 72,042	\$ 69,608
Internal Revenue Service	11,022	10,167
Corporation for National and Community Service	2,246	3,783
Other U.S. Government agencies	664	1,249
State and local government agencies	1,212	584
Corporations and foundations	<u>15,972</u>	<u>7,276</u>
 Total	 <u>\$ 103,158</u>	 <u>\$ 92,667</u>

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

**NOTE 11 - EXPENSES BY FUNCTIONAL AND NATURAL CATEGORY**

The Foundation summarizes the costs of providing its various programs and other activities on a functional basis in the accompanying statements of activities. Certain costs are reported among program and supporting services based on specific identification, or allocated using appropriate bases such as headcount or square footage, which have been consistently applied.

The Foundation's expenses by functional and natural category, as of December 31, 2019, follow (in thousands):

	Program services						Supporting services			
	SCSEP	Tax-aid	Experience Corps	Impact areas and other programs	Legal advocacy	Total program services	Fundraising	Management and general	Total supporting services	Total expenses
Expenses:										
Enrollee wages and benefits	\$ 56,461	\$ -	\$ -	\$ -	\$ -	\$ 56,461	\$ -	\$ -	\$ -	\$ 56,461
In-kind supervisory salaries	22,192	-	-	-	-	22,192	-	-	-	22,192
In-kind services from AARP, Inc.	7,786	953	2,736	5,752	1,222	18,449	4,208	10,233	14,441	32,890
Compensation and temporary labor	11,749	2,193	4,712	5,019	3,851	27,524	4,372	6,203	10,575	38,099
Printing and postage	71	1,497	238	4,587	10	6,403	14,330	58	14,388	20,791
Promotion	183	599	277	1,198	44	2,301	862	1,433	2,295	4,596
Volunteer stipends and reimbursements	9	5,326	1,463	57	-	6,855	-	43	43	6,898
Meetings and travel	619	70	518	626	85	1,918	130	151	281	2,199
Occupancy	2,081	53	236	198	107	2,675	117	233	350	3,025
Telecommunications	658	327	91	90	14	1,180	26	39	65	1,245
Office supplies and equipment	476	9,808	141	23	12	10,460	17	27	44	10,504
Consulting and professional services	1,227	426	733	6,548	202	9,136	2,355	1,449	3,804	12,940
Data processing	717	781	56	405	18	1,977	59	348	407	2,384
Depreciation and amortization	123	90	105	263	183	764	199	461	660	1,424
Insurance and taxes	50	32	36	94	66	278	71	99	170	448
Interest	34	25	27	73	51	210	55	110	165	375
Grant awards	1,486	-	1,137	20,493	-	23,116	-	-	-	23,116
Miscellaneous	73	4	87	131	143	438	137	229	366	804
 Total expenses	 <u>\$ 105,995</u>	 <u>\$ 22,184</u>	 <u>\$ 12,593</u>	 <u>\$ 45,557</u>	 <u>\$ 6,008</u>	 <u>\$ 192,337</u>	 <u>\$ 26,938</u>	 <u>\$ 21,116</u>	 <u>\$ 48,054</u>	 <u>\$ 240,391</u>

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

The Foundation's expenses by functional and natural category, as of December 31, 2018, follow (in thousands):

	Program services					Supporting services				
	SCSEP	Tax-aid	Experience Corps	Impact areas and other programs	Legal advocacy	Total program services	Fundraising	Management and general	Total supporting services	Total expenses
Expenses:										
Enrollee wages and benefits	\$ 54,545	\$ -	\$ -	\$ -	\$ -	\$ 54,545	\$ -	\$ -	\$ -	\$ 54,545
In-kind supervisory salaries	20,685	-	-	-	-	20,685	-	-	-	20,685
In-kind services from AARP, Inc.	7,333	867	2,631	5,348	1,063	17,242	4,930	10,230	15,160	32,402
Compensation and temporary labor	11,066	1,991	4,511	6,185	3,671	27,424	4,469	5,294	9,763	37,187
Printing and postage	87	1,384	303	4,246	12	6,032	12,610	53	12,663	18,695
Promotion	115	328	500	2,495	55	3,493	732	2,586	3,318	6,811
Volunteer stipends and reimbursements	10	5,447	1,350	70	-	6,877	-	33	33	6,910
Meetings and travel	942	62	371	2,915	103	4,393	146	385	531	4,924
Occupancy	2,052	40	166	178	82	2,518	89	179	268	2,786
Telecommunications	1,037	353	98	246	17	1,751	26	46	72	1,823
Office supplies and equipment	653	3,680	263	54	30	4,680	7	21	28	4,708
Consulting and professional services	1,075	113	693	6,542	194	8,617	1,908	1,299	3,207	11,824
Data processing	538	131	46	376	15	1,106	307	159	466	1,572
Depreciation and amortization	122	89	104	262	182	759	198	435	633	1,392
Insurance and taxes	40	27	30	79	55	231	60	166	226	457
Interest	33	24	26	71	49	203	53	107	160	363
Grant awards	2,212	-	1,618	11,142	-	14,972	-	3	3	14,975
Miscellaneous	115	28	91	128	131	493	127	142	269	762
Total expenses	<u>\$ 102,660</u>	<u>\$ 14,564</u>	<u>\$ 12,801</u>	<u>\$ 40,337</u>	<u>\$ 5,659</u>	<u>\$ 176,021</u>	<u>\$ 25,662</u>	<u>\$ 21,138</u>	<u>\$ 46,800</u>	<u>\$ 222,821</u>

**NOTE 12 - ALLOCATION OF JOINT COSTS**

In 2019 and 2018, the Foundation conducted direct mail campaigns that included requests for contributions, as well as program components. The costs associated with the development and dissemination of such mailings are allocated among the functional expense categories benefited, particularly impact areas and other programs, on a basis of the extent of content attributable to each respective function. These joint costs were allocated as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Fundraising	\$ 10,574	\$ 9,584
Program services	4,323	4,136
Total	<u>\$ 14,897</u>	<u>\$ 13,720</u>

**NOTE 13 - EMPLOYEE HEALTH CARE BENEFITS**

The Foundation participates with other AARP affiliates in the AARP Employees' Welfare Plan, which provides certain health care and other 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 totaled approximately \$2,633,000 and \$2,360,000 for the years ended December 31, 2019 and 2018, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2019 and 2018 totaled approximately \$332,000 and \$329,000, respectively, and is included as a component of accounts payable and accrued expenses in the accompanying statements of financial position.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 14 - DEFINED-BENEFIT PENSION PLAN**

The Foundation's employees that meet specified eligibility requirements are covered under the AARP Employees' Pension Plan (the "Plan"), a single employer, non-contributory defined benefit pension plan sponsored by AARP, Inc.

All actuarially determined liabilities and assets relating to accrued pension are recorded on the books of AARP, Inc.

There were no employer contributions by the Foundation to the Plan in 2019 and 2018. The Foundation will not be required to make a contribution to the pension plan in 2020.

**NOTE 15 - DEFINED-CONTRIBUTION PLAN**

The Foundation participates in a single employer defined contribution plan known as 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.

Employer contributions totaled approximately \$991,000 and \$1,002,000 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS**

***Purpose and Time-Restricted Net Assets***

Purpose and time-restricted net assets were available as follows at December 31, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Purpose-restricted	\$ 942	\$ 813
Time-restricted	2,308	2,684
Donor-restricted endowment (Note 17)	<u>418,831</u>	<u>287,595</u>
Total	<u>\$ 422,081</u>	<u>\$ 291,092</u>

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes specified by the donors or by having met the time requirements during the years ended December 31, 2019 and 2018 as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Purpose-restricted releases	\$ 808	\$ 328
Time-restricted releases	<u>2,376</u>	<u>2,327</u>
Total	<u>\$ 3,184</u>	<u>\$ 2,655</u>



## AARP Foundation

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

#### NOTE 17 - ENDOWMENTS

The Foundation's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments).

##### *Interpretation of Relevant Law*

The Foundation has interpreted the District of Columbia "Uniform Prudent Management of Institutional Funds Act of 2007" (the "Act") as requiring the Foundation, absent of explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligations to preserve the value of the endowment and its obligations to use the endowment to achieve the purposes for which it was donated. The Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor restricted-endowment required by the applicable donor gift instrument.

Assets of both the donor-restricted and quasi-endowment funds are invested in a broadly diversified portfolio spread over multiple asset classes.

##### *Donor-Restricted Endowment*

In January 2016, the Foundation established a donor-restricted endowment fund. Until December 31, 2019, the terms of the donor agreement required that all investment returns be added to the corpus of the endowment fund. Beginning in January 1, 2020, the donor has directed the Foundation to begin spending the endowment fund, in accordance with spending policies approved by the Foundation's Board. In connection with its donor-restricted endowment fund, the Board has adopted a spending policy, which permits an annual transfer to operating funds of up to 6% of the previous 12 quarters' average quasi-endowment fund balance.

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or the Act requires to be retained as a fund of perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. The Foundation has interpreted the Act as permitting spending from an "underwater" fund, in accordance with the prudent measures required under the law. As of December 31, 2019 and 2018, the Foundation's donor-restricted endowment fund did not have any deficiencies.

##### *Board-Designated Quasi-Endowment*

The Foundation's net assets without donor restrictions include amounts designated by its Board of Directors to function as a quasi-endowment fund. In connection with its quasi-endowment fund, the Board has adopted a spending policy, which permits an annual transfer to operating funds of up to 6% of the previous 12 quarters' average quasi-endowment fund balance.

Assets of both the donor-restricted and quasi-endowment funds are invested in a broadly diversified portfolio spread over multiple asset classes.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

***Changes in endowment net assets***

Changes in endowment net assets for the fiscal years ended December 31, 2019 and 2018 were as follows (in thousands):

	<b>2019</b>		
	<b>Net assets</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, January 1	\$ 19,989	\$ 287,595	\$ 307,584
Contributions	-	78,918	78,918
Investment return	2,791	52,318	55,109
Board designations	2,112	-	2,112
Appropriations for spending	(952)	-	(952)
	<u>\$ 23,940</u>	<u>\$ 418,831</u>	<u>\$ 442,771</u>
Endowment net assets, December 31	<u>\$ 23,940</u>	<u>\$ 418,831</u>	<u>\$ 442,771</u>
	<b>2018</b>		
	<b>Net assets</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Endowment net assets, January 1	\$ 20,564	\$ 223,796	\$ 244,360
Contributions	-	76,976	76,976
Investment return	(813)	(13,177)	(13,990)
Board designations	1,139	-	1,139
Appropriations for spending	(901)	-	(901)
	<u>\$ 19,989</u>	<u>\$ 287,595</u>	<u>\$ 307,584</u>
Endowment net assets, December 31	<u>\$ 19,989</u>	<u>\$ 287,595</u>	<u>\$ 307,584</u>

**NOTE 18 - COMMITMENTS AND 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 material effect on the financial position, changes in net assets or cash flows 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. 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, changes in net assets or cash flows of the Foundation.

The Foundation adopted Accounting Standards Codification 842, *Leases*, on January 1, 2019. All of the Foundation's leases have terms of 12 month or less, and therefore, have not been recognized in the accompanying statements of financial position. Operating lease cost for the year ended December 31, 2019 totaled approximately \$2,861,000. There were no variable lease payments for the year ended December 31, 2019.

Rent expense incurred under operating leases totaled approximately \$2,113,000 for the year ended December 31, 2018.

**AARP Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2019 and 2018**

**NOTE 19 - SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through the date its financial statements were available to be issued, March 17, 2020. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the accompanying financial statements, other than those already disclosed.