Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

AARP FOUNDATION

December 31, 2018 and 2017

AARP FOUNDATION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
AARP Foundation:

We have audited the accompanying consolidated financial statements of AARP Foundation and affiliate (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AARP Foundation and affiliate as of December 31, 2018 and 2017, and the changes in their net assets and their 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 20, 2019

AARP FOUNDATION
Consolidated Statements of Financial Position
As of December 31, 2018 and 2017
(In thousands)

	2018	2017
ASSETS		
Cash and cash equivalents (Note 2)	$ 12,071	$ 9,187
Contributions receivable (Notes 2 and 6)	684	555
Grants receivable (Notes 2 and 7)	8,579	10,679
Prepaid expenses and other assets	2,402	2,468
Investments (Notes 2 and 4)	389,043	331,746
Charitable gift annuity investments (Notes 2 and 4)	4,815	5,341
Program-related investments, net (Notes 2 and 5)	5,900	5,728
Property and equipment, net (Notes 2 and 9)	15,836	17,236
Total assets	$ 439,330	$ 382,940
LIABILITIES		
Accounts payable and accrued expenses	$ 21,275	$ 23,842
Deferred revenue (Note 2)	3,305	6,073
Due to affiliates (Note 8)	116	192
Charitable gift annuities payable (Note 2)	3,055	3,172
Bonds payable (Note 10)	25,000	25,000
Total liabilities	52,751	58,279
Commitments and contingencies (Notes 8, 14, 15, 16 and 19)		
NET ASSETS		
Net assets without donor restrictions:		
Undesignated (Note 2)	18,029	21,881
Board designated quasi-endowment (Notes 2 and 18)	19,989	20,564
Board designated operating reserves (Note 2)	57,469	55,483
Total net assets without donor restrictions	95,487	97,928
Net assets with donor restrictions (Notes 2, 17 and 18)	291,092	226,733
Total net assets	386,579	324,661
Total liabilities and net assets	$ 439,330	$ 382,940

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

AARP FOUNDATION
Consolidated Statement of Activities
For the year ended December 31, 2018
(In thousands)

	Changes in Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Grant revenue (Notes 2 and 11)	$ 92,667	$ -	$ 92,667
Contributions (Notes 2, 8 and 18)	74,518	80,191	154,709
In-kind contributions (Notes 2 and 8)	53,087	-	53,087
Investment return designated for operations (Notes 2, 4 and 18)	4,564	-	4,564
Other	1,134	-	1,134
Net assets released from restrictions (Note 17)	2,655	(2,655)	-
Total operating revenue	228,625	77,536	306,161
OPERATING EXPENSES			
Program services (Notes 1, 12 and 13):			
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	176,021	-	176,021
Supporting services (Notes 12 and 13):			
Fundraising	25,662	-	25,662
Management and general	21,138	-	21,138
Total supporting services	46,800	-	46,800
Total expenses	222,821	-	222,821
Change in net assets from operating activities	5,804	77,536	83,340
NON-OPERATING ACTIVITY			
Investment return in excess of amounts designated for operations (Notes 2, 4 and 18)	(8,213)	(13,177)	(21,390)
Change in value of charitable gift annuities	(32)	-	(32)
Change in net assets	(2,441)	64,359	61,918
Net assets, beginning of year	97,928	226,733	324,661
Net assets, end of year	$ 95,487	$ 291,092	$ 386,579

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

AARP FOUNDATION
Consolidated Statement of Activities
For the year ended December 31, 2017
(In thousands)

	Changes in Net Assets		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
OPERATING REVENUE			
Grant revenue (Notes 2 and 11)	$ 96,938	$ -	$ 96,938
Contributions (Notes 2, 8 and 18)	73,682	78,780	152,462
In-kind contributions (Notes 2 and 8)	59,792	-	59,792
Investment return designated for operations (Notes 2, 4 and 18)	4,266	-	4,266
Other	1,046	-	1,046
Net assets released from restrictions (Note 17)	2,181	(2,181)	-
Total operating revenue	237,905	76,599	314,504
OPERATING EXPENSES			
Program services (Notes 1, 12 and 13):			
Senior Community Service Employment Program (SCSEP)	112,430	-	112,430
Tax-Aide	18,344	-	18,344
Experience Corps	15,075	-	15,075
Impact areas and other programs	39,965	-	39,965
Legal advocacy	5,189	-	5,189
Total program services	191,003	-	191,003
Supporting services:			
Fundraising (Notes 12 and 13)	24,545	-	24,545
Management and general	21,112	-	21,112
Total supporting services	45,657	-	45,657
Total expenses	236,660	-	236,660
Change in net assets from operating activities	1,245	76,599	77,844
NON-OPERATING ACTIVITIES			
Investment return in excess of amounts designated for operations (Notes 2, 4 and 18)	6,842	24,644	31,486
Change in value of charitable gift annuities	(245)	-	(245)
Change in net assets	7,842	101,243	109,085
Net assets, beginning of year	90,086	125,490	215,576
Net assets, end of year	$ 97,928	$ 226,733	$ 324,661

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

AARP FOUNDATION
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 61,918	$ 109,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,375	1,373
Loss on disposal of property and equipment	25	-
Amortization of debt issuance costs	17	17
Net realized and unrealized loss (gain) on investments	21,356	(31,786)
Transfer of investments from AARP, Inc. (Notes 4, 8 and 18)	(36,976)	(34,000)
Change in present value discount of program-related investments	(254)	(253)
Change in value of charitable gift annuities	32	245
Changes in operating assets and liabilities:		
Contributions receivable	(129)	1,823
Grants receivable	2,100	(1,568)
Prepaid expenses and other assets	49	127
Accounts payable and accrued expenses	(2,567)	3,275
Deferred revenue	(2,768)	2,286
Due to affiliates	(76)	(215)
Charitable gift annuities payable	(149)	(378)
Net cash provided by operating activities	43,953	50,031
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(46)
Proceeds from program-related investments	82	-
Purchase of investments	(602,182)	(391,155)
Proceeds from sales and maturities of investments	561,031	339,259
Net cash used in investing activities	(41,069)	(51,942)
Net increase (decrease) in cash and cash equivalents	2,884	(1,911)
Cash and cash equivalents, beginning of year	9,187	11,098
Cash and cash equivalents, end of year	$ 12,071	$ 9,187
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 353	$ 202

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

1. DESCRIPTION OF ORGANIZATION AND PROGRAMS

The core mission of AARP Foundation (the "Foundation") is to make struggling older adults more visible and to give them the opportunity to thrive. 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. AARP 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"), an 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 AARP 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 AARP 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, 2018 and 2017, 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 23% and 24%, respectively, of the Foundation's operating revenue for each of the years ended December 31, 2018 and 2017. The current federal grants to the Foundation expire on June 30, 2019, 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, 2019 and September 30, 2019, and are both expected to be renewed.

AARP Foundation Experience Corps (“Experience Corps”) is a high-impact, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. The significant changes include:

- Requiring the presentation of two net asset classes - “net assets without donor restrictions” and “net assets with donor restrictions”;

- Modifying the presentation of underwater endowment funds and related disclosures;

- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;

- Requiring that all not-for-profits present an analysis of expenses by function and nature either in a separate statement or in the notes to the financial statements;

- Requiring disclosure of quantitative and qualitative information on liquidity;

- Presenting investment return net of external and direct internal investment expenses; and

- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

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 18) and operating reserves. The operating reserve is intended to provide funds to ensure the continued operation of the Foundation 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 17). 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 18). Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors.

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 consolidated statements of activities. Investment return designated for operations is calculated in accordance with a Board-approved spending policy, and includes returns on both Board-designated and undesignated investment funds.

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.

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 $12,380,000 and $10,065,000 at December 31, 2018 and 2017, respectively.

Contributions

The Foundation reports contributions as revenue when received or pledged by the donor. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

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.

In-kind Contributions

The Foundation's in-kind contributions principally consist of services donated by AARP, Inc. (Note 8) 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 consolidated statements of activities. Donated supervisory salaries and other in-kind contributions from non-related parties of approximately $20,685,000 and $28,400,000 were recognized for the years ended December 31, 2018 and 2017, 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 consolidated financial statements.

Grants Revenue

Grant revenue is recognized to the extent allowable expenses are incurred. Amounts reported as grants receivable, within the accompanying consolidated statements of financial position, represent expenses incurred in advance of the receipt of funds. Funds received in advance are reported as deferred revenue within the accompanying consolidated statements of financial position.

Allowance for Uncollectible Accounts

The carrying value of contributions, notes 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, notes 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, 2018 and 2017, management did not record an allowance for either contributions, notes 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 returns in the accompanying consolidated 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 reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated 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 consolidated 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. 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 fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. Such funds 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. 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 consolidated statements of activities.

The assets held for all charitable gift annuities are reported within the charitable gift annuity investments in the accompanying consolidated 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 consolidated 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.

The CGA investment and liability balances for the Foundation and the Institute were as follows for the years ended December 31, 2018 and 2017 (in thousands):

	2018			2017		
	AARP Foundation	Institute	Total	AARP Foundation	Institute	Total
CGA investments (Note 4)	$ 4,815	$ -	$ 4,815	$ 3,318	$ 2,023	$ 5,341
CGA liabilities	$ 3,055	$ -	$ 3,055	$ 2,003	$ 1,169	$ 3,172

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.

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 3 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 consolidated 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 Code. 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 material uncertain tax positions that require recognition or disclosure in the accompanying consolidated financial statements.

Use of Estimates

The preparation of the consolidated 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 consolidated financial statements. Actual results could differ from these estimates.

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

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

Financial Assets:		
Cash and cash equivalents	$	12,071
Contributions and grants receivable, net		9,263
Investments and charitable gift annuity investments:		
Level 1		109,060
Level 2		43,452
Institutional mutual funds		229,618
Less: Board designated funds (quasi-endowment and operating reserves)		(77,458)
Less: Net assets with donor restrictions		(291,092)
Total financial assets available within one year	$	34,914

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.

4. INVESTMENTS AND CHARITABLE GIFT ANNUITY INVESTMENTS

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

	Level 1	Level 2	Net Asset Value	Total
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	104,563	43,363	236,301	384,227
Cash and cash equivalents held for investment				4,816
Total Investments				$ 389,043
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 fund	1,336	-	-	1,336
Mortgage and asset-backed	-	89	-	89
Short term	409	-	-	409
U.S. government and treasury securities	133	-	-	133
Sub-total	4,497	89	-	4,586
Cash and cash equivalents held for investment				229
Total Charity Gift Annuity Investments				$ 4,815

The composition of the Foundation's investments, as of December 31, 2017, follows (in thousands):

	Level 1	Level 2	Net Asset Value	Total
Investments:				
Equity securities and funds:				
Emerging markets	$ 10,605	$ -	$ 3,719	$ 14,324
Global and international	35,729	-	15,691	51,420
U.S. large-mid cap	16,444	-	38,005	54,449
U.S. small cap	8,568	-	2,114	10,682
Fixed income securities and funds:				
Global and international	-	5,118	8,269	13,387
High-yield	171	-	11,447	11,618
International government	-	472	-	472
Mortgage and asset-backed	-	5,872	-	5,872
U.S. corporate and investment grade	21,238	13,882	-	35,120
U.S. fixed income	-	-	42,956	42,956
U.S. government and treasury securities	205	-	-	205
Hedge funds:				
Global macro	-	-	10,468	10,468
Multi-strategy	-	-	13,622	13,622
Equity long/short	-	-	8,546	8,546
Equity market neutral	-	-	4,172	4,172
Equity driven/credit	-	-	5,178	5,178
Private equity fund:				
Private equity fund - U.S.	-	-	654	654
Real assets and commodity funds:				
Commingled real asset funds - U.S.	-	-	25,941	25,941
Commingled real asset funds	-	-	16,269	16,269
Private real asset funds	-	-	801	801
Sub-total	92,960	25,344	207,852	326,156
Cash and cash equivalents held for investment				5,590
Total Investments				$ 331,746
Charitable Gift Annuity Investments:				
Equity securities and funds:				
U.S. large-mid cap	2,418	-	-	2,418
U.S. small cap	146	-	-	146
Fixed income securities and funds:				
Global and international	172	-	-	172
U.S. corporate and investment grade	245	-	-	245
U.S. fixed income fund	1,374	-	-	1,374
Mortgage and asset-backed	-	40	-	40
Short term	462	-	-	462
U.S. government and treasury securities	184	-	-	184
Sub-total	5,001	40	-	5,041
Cash and cash equivalents held for investment				300
Total Charity Gift Annuity Investments				$ 5,341

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

	2018 Fair Value	Unfunded Commitments	2017 Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Restrictions
Institutional mutual funds:						
U.S. large-mid cap equity (a)	$ 41,544	n/a	$ 38,005	Daily	2 days	n/a
U.S. small cap equity (b)	-	n/a	2,114	Daily	2 days	n/a
Emerging markets equity (c)	655	n/a	3,719	Semi-monthly	2 days	n/a
Global and international equity (d)	22,357	n/a	15,691	Semi-monthly	2 days	n/a
Global and international fixed income (e)	24,098	n/a	8,269	Quarterly	30 days	n/a
U.S. fixed income (f)	10,730	n/a	42,956	Daily	None or 2 days	n/a
High-yield (g)	14,510	n/a	11,447	Monthly	10 days or 45 days	n/a
Hedge funds:						
Multi-strategy (h)	18,276	n/a	13,622	Semi-monthly, monthly, Bi-annually	45 - 75 days	None
Equity long/short (i)	7,947	n/a	8,546	Monthly, quarterly	30 days	Lock-up provisions range from none to 1 year
Global macro (j)	10,362	n/a	10,468	Monthly	2-25 days	None
Equity market neutral (k)	4,004	n/a	4,172	Monthly	90 days	None
Event driven/credit (l)	10,076	n/a	5,178	Quarterly	60 days	None
Real assets and commodity funds:						
Commingled real asset funds (m)	15,082	n/a	16,269	Daily	None	n/a
Commingled real asset funds - U.S. (n)	49,977	n/a	25,941	Quarterly	45-90 days	n/a
Private real estate funds (o)	1,129	10,523	801	n/a	n/a	n/a
Private equity funds:						
Private equity fund - global (q)	1,370	3,650	-	n/a	n/a	n/a
Private equity fund - U.S. (p)	4,184	19,208	654	n/a	n/a	n/a
	$ 236,301	$ 33,381	$ 207,852			

(a) This class includes an investment in a fund that employs a passive investment strategy seeking to replicate the performance of a large-mid cap benchmark.

(b) This class included an investment in a fund that employed a passive investment strategy seeking to replicate the performance of a small-cap benchmark.

(c) This class includes an investment in a fund that employs a passive investment strategy seeking to replicate the performance of an emerging market benchmark.

(d) This class includes an investment in a fund that employs a passive investment strategy seeking to replicate the performance of a global, developed market index.

(e) This class includes an investment in a fund that is actively managed and seeks a strategy to exceed the performance of a global, short-term index. The fund manager is given wide latitude under mutually agreed upon investment guidelines to invest in an array of investment vehicles with short-term maturities.

(f) This class is managed by three fund managers. One manager employs four different passive funds in an effort to replicate the performance of a well-known fixed income index. The other managers employ various strategies to emulate the duration of intermediate fixed income securities, with one manager utilizing a “core plus” strategy with longer durations.

(g) This class is managed by two fund managers that invest in high-yield bonds.

(h) This class includes 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) This class includes 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) This class includes 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.

(k) This class includes 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.

(l) This class includes 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 United States and globally.

(m) This class 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.

(n) This class includes investments in commingled funds that invest in multi-family, industrial, retail and commercial real estate located in the United States 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.

(o) This class 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 5 to 10 years.

(p) This class 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 2 to 13 years.

(q) This class 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 7-12 years.

5. PROGRAM-RELATED INVESTMENTS, NET

Program related investments presented in the consolidated statements of financial position represent various below-market-rate programmatic loans with outstanding principal balances totaling approximately $7,542,000 and $7,629,000 as of December 31, 2018 and 2017, respectively. The interest rate on these programmatic loans was 2% for each of the years ended December 31, 2018 and 2017. The loans are individually monitored to determine the net realizable value based on an evaluation of recoverability. In 2018 and 2017, the Foundation received principal repayments in the amount of approximately $82,000 and $0, respectively.

Loans receivable, at the present value of expected cash flows, were scheduled for collection as of December 31, 2018 and 2017 as follows (in thousands):

	2018	2017
2018	$ -	$ 129
2019 - 2026	7,542	7,500
	7,542	7,629
Less: present value discount	(1,642)	(1,901)
Total program-related investments, net	$ 5,900	$ 5,728

The Foundation has a total of seven (7) loans outstanding at an average face amount of approximately $1,077,000 and $1,090,000 as of December 31, 2018 and 2017, respectively. The average carrying amount of each loan totaled approximately $842,000 and $818,000, as of December 31, 2018 and 2017, respectively.

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2018 and 2017 were expected to be received as follows (in thousands):

	2018	2017
Within one year	$ 492	$ 347
Between two and five years	-	20
Thereafter	192	188
Total	$ 684	$ 555

In prior years, the Foundation received pledges totaling $4,000,000 that were conditional upon satisfactory program performance. During the years ended December 31, 2018 and 2017, the Foundation recognized $2,000,000 in each year, having satisfied those conditions.

7. GRANTS RECEIVABLE

Grants receivable consisted of amounts due from the following sources as of December 31, 2018 and 2017 (in thousands):

	2018	2017
U.S. Department of Labor	$ 5,803	$ 7,061
Internal Revenue Service	1,320	1,697
Corporation for National and Community Service	752	801
Other	704	1,120
Total	$ 8,579	$ 10,679

8. RELATED-PARTY TRANSACTIONS

Contributions

AARP, Inc. made contributions to the Foundation totaling approximately $101,600,000 and $100,220,000 for the years ended December 31, 2018 and 2017, respectively.

The contributions from AARP, Inc. in 2018 and 2017 included transfers of cash and investments valued at $76,976,000 and $76,111,000, respectively, from AARP, Inc. to the Foundation to establish a restricted endowment fund (Note 18).

In addition, AARP, Inc. contributed donated services valued at approximately $32,402,000 and $31,342,000 for the years ended December 31, 2018 and 2017, respectively, which are included within in-kind contributions in the accompanying consolidated statements of activities.

AARP, Inc. contributions represented approximately 44% and 42% of the Foundation's total operating revenue for the years ended December 31, 2018 and 2017, 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 $639,000 and $591,000 for the years ended December 31, 2018 and 2017, 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 $5,087,000 and $4,927,000 were recognized for the years ended December 31, 2018 and 2017, respectively.

Insurance Premiums

The Foundation purchases certain insurance coverage from Andrus Insurance Fund, LLC, an affiliate of AARP, Inc. The Foundation's related insurance expense for such coverage totaled approximately $2,162,000 and $2,069,000 for the years ended December 31, 2018 and 2017, respectively.

Due to/from Affiliates

Amounts reported as due to or from affiliates, included in the accompanying consolidated statements of financial position, arise principally from the activities described above, and are typically settled on a monthly basis.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is summarized as follows at December 31, 2018 and 2017 (in thousands):

	2018	2017
Land	$ 4,440	$ 4,440
Office space and improvements	22,795	22,839
Equipment	2,285	2,268
	29,520	29,547
Accumulated depreciation	(13,684)	(12,311)
Property and equipment, net	$ 15,836	$ 17,236

10. 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, 2018 and 2017, were 1.81% and 1.73%, respectively. Interest expense incurred for the years ended December 31, 2018 and 2017 totaled approximately $363,000 and $215,000, 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, 2018 and 2017. 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.

11. GRANT REVENUE

Grant revenue from the following sources was recognized for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
U.S. Department of Labor	$ 69,608	$ 74,436
Internal Revenue Service	10,167	9,615
Corporation for National and Community Service	3,783	3,675
U.S. Department of Agriculture	1,050	987
Other U.S. Government agencies	199	924
State agencies	584	515
Corporations and foundations	7,276	6,786
Total	$ 92,667	$ 96,938

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.

12. 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 consolidated 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.

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

	Program Services						Supporting Services			
	SCSEP	Tax-Aide	Experience Corps	Impact Areas and Other Programs	Legal Advocacy	Total Program Services	Fundraising	Management and General	Total Supporting Services	2018 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.	7,324	860	2,624	5,328	1,049	17,185	4,915	10,201	15,116	32,301
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	2,061	47	173	198	96	2,575	104	208	312	2,887
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	$ 102,660	$ 14,564	$ 12,801	$ 40,337	$ 5,659	$ 176,021	$ 25,662	$ 21,138	$ 46,800	$ 222,821

The Foundation's expenses by functional and natural category, as of December 31, 2017, follow (in thousands):

	Program Services						Supporting Services			
	SCSEP	Tax-Aide	Experience Corps	Impact Areas and Other Programs	Legal Advocacy	Total Program Services	Fundraising	Management and General	Total Supporting Services	2018 Total Expenses
Expenses:										
Enrollee wages and benefits	$ 58,742	$ -	$ -	$ -	$ -	$ 58,742	$ -	$ -	$ -	$ 58,742
In-kind supervisory salaries	23,800	-	-	-	-	23,800	-	-	-	23,800
In-kind services from AARP, Inc.	7,332	857	2,347	4,888	932	16,356	5,015	9,971	14,986	31,342
Compensation and temporary labor	11,758	2,151	4,103	6,026	3,440	27,478	4,318	5,415	9,733	37,211
Printing and postage	183	1,117	130	4,310	13	5,753	11,661	39	11,700	17,453
Promotion	342	315	106	2,127	65	2,955	1,113	2,214	3,327	6,282
Volunteer stipends and reimbursements	13	5,216	1,219	64	1	6,513	-	28	28	6,541
Meetings and travel	993	39	347	3,171	104	4,654	123	293	416	5,070
Occupancy	1,934	34	205	212	85	2,470	81	164	245	2,715
Telecommunications	1,247	258	75	318	11	1,909	23	36	59	1,968
Office supplies and equipment	810	3,387	132	108	58	4,495	34	12	46	4,541
Consulting and professional services	1,765	74	650	2,629	74	5,192	1,168	1,888	3,056	8,248
Data processing	694	4,765	47	414	27	5,947	632	302	934	6,881
Depreciation and amortization	135	78	161	256	193	823	177	390	567	1,390
Insurance and taxes	42	23	58	76	58	257	53	68	121	378
Interest	22	12	25	41	31	131	28	56	84	215
Grant awards	2,392	-	5,371	15,170	-	22,933	-	28	28	22,961
Miscellaneous	226	18	99	155	97	595	119	208	327	922
Total expenses	$ 112,430	$ 18,344	$ 15,075	$ 39,965	$ 5,189	$ 191,003	$ 24,545	$ 21,112	$ 45,657	$ 236,660

13. ALLOCATION OF JOINT COSTS

In 2018 and 2017, 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):

	2018	2017
Fundraising	$ 9,584	$ 8,711
Program services	4,136	4,149
Total	$ 13,720	$ 12,860

14. 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 $2,360,000 and $2,808,000 for the years ended December 31, 2018 and 2017, respectively. The total estimated liability, including incurred but not reported claims, at December 31, 2018 and 2017 totaled approximately $329,000 and $343,000, respectively, and is included as a component of accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

15. 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.

There were no employer contributions by the Foundation to the Plan in 2018 and 2017. The Foundation will not be required to make a contribution to the pension plan in 2019.

16. 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 $1,002,000 and $950,000 for the years ended December 31, 2018 and 2017, respectively.

17. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were as follows at December 31, 2018 and 2017 (in thousands):

	2018	2017
Purpose and time-restricted	$ 3,497	$ 2,937
Donor-restricted endowment (Note 18)	287,595	223,796
Total	$ 291,092	$ 226,733

Purpose and Time-Restricted Net Assets

Purpose and time-restricted net assets were available as follows at December 31, 2018 and 2017 (in thousands):

	2018	2017
Purpose-restricted	$ 813	$ 382
Time-restricted	2,684	2,555
Total	$ 3,497	$ 2,937

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, 2018 and 2017 as follows (in thousands):

	2018	2017
Purpose-restricted releases	$ 328	$ 16
Time-restricted releases	2,327	2,165
Total	$ 2,655	$ 2,181

18. 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.

Donor-Restricted Endowment

In January 2016, the Foundation established a donor-restricted endowment fund. The terms of the donor agreement require that all investment returns be added to the corpus of the endowment fund until such time as stipulated by the donor.

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, 2018 and 2017, 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 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 both the donor-restricted and quasi-endowment funds are invested in a broadly diversified portfolio spread over multiple asset classes.

The following tables summarize endowment net assets, by type of fund, as of December 31, 2018 and 2017 (in thousands):

	2018		
	Net Assets		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted (endowment)	$ -	$ 287,595	$ 287,595
Board-designated (quasi-endowment)	19,989	-	19,989
Total	$ 19,989	$ 287,595	$ 307,584

	2017		
	Net Assets		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted (endowment)	$ -	$ 223,796	$ 223,796
Board-designated (quasi-endowment)	20,564	-	20,564
Total	$ 20,564	$ 223,796	$ 244,360

Changes in endowment net assets for the fiscal years ended December 31, 2018 and 2017 were as follows (in thousands):

	2018		
	Net Assets		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, January 1	$ 20,564	$ 223,796	$ 244,360
Contributions	-	76,976	76,976
Interest and dividends	188	-	188
Realized and unrealized loss	(1,001)	(13,177)	(14,178)
Designations	1,139	-	1,139
Appropriations for spending	(901)	-	(901)
Endowment net assets, December 31	$ 19,989	$ 287,595	$ 307,584

	2017		
	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1	$ 18,611	$ 123,041	$ 141,652
Contributions	-	76,111	76,111
Interest and dividends	209	2,734	2,943
Realized and unrealized gain	2,060	21,910	23,970
Designations	572	-	572
Appropriations for spending	(888)	-	(888)
Endowment net assets, December 31	$ 20,564	$ 223,796	$ 244,360

19. 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 consolidated 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 consolidated financial position, changes in net assets or cash flows 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. Rent expense incurred under operating leases totaled approximately $2,113,000 and $1,989,000 for the years ended December 31, 2018 and 2017, respectively.

20. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through the date its consolidated financial statements were available to be issued, March 20, 2019.

In January 2019, the Foundation received a contribution restricted in perpetuity of approximately $58,318,000 from AARP, Inc.

The Foundation is not aware of any other subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.