Aga Khan Foundation U.S.A.

Financial Statements
Years Ended December 31, 2018 and 2017

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Financial Statements

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Contents

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Independent Auditor's Report

To the Board of Directors
Aga Khan Foundation U.S.A.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of **Aga Khan Foundation U.S.A.** (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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 **Aga Khan Foundation U.S.A.** as of December 31, 2018 and 2017, 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.

BDO USA, LLP

May 16, 2019

Financial Statements

Aga Khan Foundation U.S.A.

Statements of Financial Position

December 31,		**2018**		2017
Assets:				
Cash and cash equivalents	**$**	**102,472,036**	$	77,749,760
Notes receivable		**13,250,000**		13,250,000
Investments		**66,083,958**		42,872,325
Accounts receivable and other current assets		**165,590**		132,586
Donor agency receivables		**741,749**		1,159,396
Receivables from affiliates		**2,228,752**		4,163,700
Contributions receivable, net		**128,290,588**		137,252,623
Fixed assets, net		**89,280,231**		81,502,357
Total assets	**$**	**402,512,904**	$	358,082,747
Liabilities and net assets				
Liabilities:				
Accounts payable and accrued liabilities	**$**	**456,885**	$	387,813
Property tax accrual		**1,536,003**		-
Payables to affiliates		**749,370**		1,116,381
Deferred rent		**109,531**		100,075
Deferred revenue		**1,877,994**		2,848,917
Total liabilities		**4,729,783**		4,453,186
Net assets:				
Without donor restrictions		**265,859,163**		217,709,117
With donor restrictions		**131,923,958**		135,920,444
Total net assets		**397,783,121**		353,629,561
Total liabilities and net assets	**$**	**402,512,904**	$	358,082,747

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

Aga Khan Foundation U.S.A.

Statement of Activities

Year ended December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 43,126,572	$ 26,452,928	$ 69,579,500
Federal grants	7,112,824	-	7,112,824
Non federal grants and contracts	659,576	-	659,576
Investment return, net	1,423,372	-	1,423,372
Net assets released from restrictions	30,449,414	(30,449,414)	-
Total revenues	$ 82,771,758	$ (3,996,486)	$ 78,775,272
Expenses:			
Program services			
International programs	25,814,632	-	25,814,632
Community centers development program	4,972,376	-	4,972,376
Supporting services			
Management and general	1,122,911	-	1,122,911
Fundraising	2,711,793	-	2,711,793
Total expenses	34,621,712	-	34,621,712
Change in net assets	48,150,046	(3,996,486)	44,153,560
Net assets at beginning of year	217,709,117	135,920,444	353,629,561
Net assets at end of year	$ 265,859,163	$ 131,923,958	$ 397,783,121

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

Aga Khan Foundation U.S.A.

Statement of Activities

Year ended December 31, 2017	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 77,274,504	$ 142,358,933	$ 219,633,437
Federal grants	13,529,320	-	13,529,320
Non federal grants and contracts	687,593	1,084,638	1,772,231
Investment return, net	365,266	-	365,266
Net assets released from restrictions	21,730,560	(21,730,560)	-
Total revenues	$ 113,587,243	$ 121,713,011	$ 235,300,254
Expenses:			
Program services			
International programs	28,884,568	-	28,884,568
Community centers development program	1,852,366	-	1,852,366
Supporting services			
Management and general	15,814,124	-	15,814,124
Fundraising	3,176,087	-	3,176,087
Total expenses	49,727,145	-	49,727,145
Change in net assets	63,860,098	121,713,011	185,573,109
Net assets at beginning of year	153,849,019	14,207,433	168,056,452
Net assets at end of year	$ 217,709,117	$ 135,920,444	$ 353,629,561

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

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

	Program Services			Supporting Services			
Year Ended December 31, 2018	International Programs	Community Centers Development Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Direct program expenses	$ 24,042,985	$ 1,921,162	$ 25,964,147	$ -	$ -	$ -	$ 25,964,147
Staffing costs	1,243,872	-	1,243,872	626,203	1,217,996	1,844,199	3,088,071
Legal, accounting and consulting	262,993	32,708	295,701	170,123	-	170,123	465,824
Travel	77,567	-	77,567	163,629	30,714	194,343	271,910
Doubtful pledges recovery	-	-	-	(143,781)	-	(143,781)	(143,781)
General office	3,355	-	3,355	224,197	30,513	254,710	258,065
Occupancy	125,448	-	125,448	79,231	151,859	231,090	356,538
Communications	58,412	-	58,412	-	66,351	66,351	124,763
Event expenses	-	-	-	-	545,555	545,555	545,555
Merchandise	-	-	-	-	124,529	124,529	124,529
Technology	-	-	-	-	85,880	85,880	85,880
Licenses/processing fees	-	-	-	-	94,679	94,679	94,679
Site fees	-	-	-	-	290,580	290,580	290,580
Awards	-	-	-	-	14,654	14,654	14,654
Printing	-	-	-	-	58,483	58,483	58,483
Taxes and licenses (property)	-	1,661,491	1,661,491	3,309	-	3,309	1,664,800
Depreciation	-	1,357,015	1,357,015	-	-	-	1,357,015
	$ 25,814,632	$ 4,972,376	$ 30,787,008	$ 1,122,911	$ 2,711,793	$ 3,834,704	$ 34,621,712

See accompanying notes to financial statements.

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

Year Ended December 31, 2017	Program Services: International Programs	Program Services: Community Centers Development Program	Program Services: Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total Expenses
Direct program expenses	$ 26,727,517	$ 250,000	$ 26,977,517	$ -	$ -	$ -	$ 26,977,517
Staffing costs	1,263,082	-	1,263,082	604,336	1,171,315	1,775,651	3,038,733
Legal, accounting and consulting	536,029	44,862	580,891	111,152	-	111,152	692,043
Travel	160,733	-	160,733	143,668	23,683	167,351	328,084
Doubtful pledges provision	-	-	-	14,634,065	-	14,634,065	14,634,065
General office	1,673	205	1,878	238,404	110,904	349,308	351,186
Occupancy	125,854	-	125,854	79,486	152,349	231,835	357,689
Communications	69,680	-	69,680	-	101,236	101,236	170,916
Event expenses	-	-	-	-	955,978	955,978	955,978
Merchandise	-	-	-	-	148,348	148,348	148,348
Technology	-	-	-	-	133,166	133,166	133,166
Licenses/processing fees	-	-	-	-	79,890	79,890	79,890
Site fees	-	-	-	-	201,842	201,842	201,842
Awards	-	-	-	-	27,690	27,690	27,690
Printing	-	-	-	-	69,686	69,686	69,686
Taxes and licenses (property)	-	327,611	327,611	3,013	-	3,013	330,624
Depreciation	-	1,229,688	1,229,688	-	-	-	1,229,688
	$ 28,884,568	**$ 1,852,366**	**$ 30,736,934**	**$ 15,814,124**	**$ 3,176,087**	**$ 18,990,211**	**$ 49,727,145**

See accompanying notes to financial statements.

Aga Khan Foundation U.S.A.

Statements of Cash Flows

Years ended December 31,	**2018**	2017
Cash flows from operating activities		
Change in net assets	**$ 44,153,560**	$ 185,573,109
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,357,015**	1,229,688
Donated fixed assets included in contribution revenue	**(7,301,482)**	(7,210,000)
Stock contribution received	**(1,716,016)**	(3,266,865)
Proceeds from sale of stock contributions received	**1,697,578**	3,225,289
Realized losses on contributed stocks	**18,438**	41,576
Net realized and unrealized loss (gain) on investments	**708,507**	(237,006)
Change in cash surrender value of life insurance policies	**(2,607,036)**	(2,717,855)
Bad debt expense	**-**	21,651
Change in allowance for doubtful contributions	**(143,781)**	14,612,414
Present value component of discounts on contributions receivable	**1,417,792**	2,153,877
(Increase) decrease in assets:		
Accounts receivable and other current assets	**(33,004)**	(62,874)
Grants receivable	**-**	358,928
Donor agency receivables	**417,647**	(571,453)
Receivables from affiliates	**1,934,948**	(612,400)
Contributions receivable	**7,688,024**	(142,308,188)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**69,072**	(140,336)
Property tax accrual	**1,536,003**	(1,433,934)
Payables to affiliates	**(367,011)**	130,805
Deferred rent	**9,456**	17,560
Deferred revenue	**(970,923)**	(646,944)
Net cash provided by operating activities	**47,868,787**	48,157,042
Cash flows from investing activities		
Purchase of investments	**(41,298,710)**	(181,440)
Sales of investments	**19,985,606**	-
Notes receivable - payment received	**-**	1,000,000
Fixed asset purchases	**(1,833,407)**	(1,223,734)
Net cash used in investing activities	**(23,146,511)**	(405,174)
Net increase in cash and cash equivalents	**24,722,276**	47,751,868
Cash and cash equivalents, beginning of year	**77,749,760**	29,997,892
Cash and cash equivalents, end of year	**$ 102,472,036**	$ 77,749,760

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

1. Organization

Aga Khan Foundation U.S.A. (the "Foundation") incorporated on October 9, 1981, is a non-profit, non-denominational, international development agency working in Asia and Africa to find sustainable solutions to the complex problems causing global poverty. The Foundation's principal sources of financial support are grants and contributions from individuals, government agencies, domestic and foreign corporations, and foundations, including the Aga Khan Foundation established in Geneva, Switzerland. The Foundation's headquarters is located in Washington, D.C.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by the Foundation in the preparation of these financial statements:

Basis of Accounting

The accompanying financial statements of the Foundation are presented in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents except for amounts included in the Foundation's investment portfolio which are categorized as investments in the accompanying statements of financial position.

Concentration of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts at federally insured institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per bank at December 31, 2018 and 2017. At December 31, 2018 and 2017, the Foundation held approximately $101,720,000 and $77,750,000, respectively, in uninsured funds. Historically, the Foundation has not experienced any losses related to these balances and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

The Foundation maintains cash and cash equivalents and investments with high quality institutions and has established diversification and maturity guidelines to reduce risk and maintain liquidity. The Foundation maintains separate cash accounts in banks that combine the balances of all Foundation accounts to determine amounts insured by the FDIC. The Foundation mitigates exposure to the FDIC limits by sweeping balances to money market funds owned in the Foundation's name.

Credit risk with respect to accounts and notes receivable and contributions receivable was limited because these amounts are due from a large number of individual debtors and donors and/or the Foundation has long-term relationships with its major donors.

Investments

The cash surrender value of the life insurance policies is based on information provided by the respective insurance companies to the Foundation. The Foundation is the policy owner as well as the beneficiary. Changes in cash surrender value, net of premiums paid, were recognized in the accompanying statements of activities as part of net investment return. Investments also include certificates of deposit with original maturities of greater than three months. Unrealized and realized gains and losses are included in the statements of activities during the period in which they occur.

Fixed Assets

Fixed assets are carried at cost. The Foundation capitalizes assets with an original cost of $5,000 or greater. Depreciation of furniture, fixtures and equipment is computed on the straight-line method over the estimated useful lives of five years. Buildings are depreciated over 20 years. The Foundation capitalized donated assets at fair value. The Foundation does not recognize depreciation on certain photographs and books as the Foundation deems that these items have historical value that is worth preserving perpetually and intends to protect and preserve these assets. The appraised value of such items was approximately $890,000 at December 31, 2018 and 2017, respectively, and included as fixed assets in the accompanying statements of financial position.

Impairment of Long-Lived Assets

The Foundation reviews the carrying amounts of assets whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the asset is reduced, by a charge to the accompanying statements of activities, to its current fair value.

Deferred Rent

Rent expense is recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the accompanying statements of financial position.

Classification of Net Assets

The Foundation's net assets have been grouped into the following classes:

Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Contributions - The Foundation recognizes contributions and unconditional promises to give as revenue in the period received or promised, whichever is earlier. All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Contributions reported as with donor restrictions are those received with donor stipulations that limit their use for specific purposes or are subject to time restrictions. A donor restriction expires when the purpose of the contribution is accomplished or a stipulated time restriction ends. If the restrictions are met within the same year that the contribution was received, the revenue is classified as without donor restrictions. Unconditional promises to give, recorded in 2008 and prior years, which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates approximating the risk free rate of return on U.S. government securities with similar maturities. Unconditional promises to give, received in years after 2008, are recorded at the present value of their estimated future cash flows using discount rates equal to one year London Interbank Offered Rate ("LIBOR") plus 50 basis points.

Donated or contributed fixed assets and investments are recorded at fair value when received.

Contributions receivable are recorded at the net realizable value. An allowance for doubtful receivables is recorded based on aging of contributions receivable, except for receivables from special campaigns, for which an allowance is recorded based on past collection history of similar campaigns.

Federal grants – Federal grants are recognized as revenue earned to the extent that qualifying expenses have been incurred. Allowable expenses incurred in excess of cumulative reimbursements are reported as donor agency receivables. Cash received in excess of allowable expenditures incurred is reported as deferred revenue.

In-Kind Donations

Included in contributions revenue in the accompanying statements of activities are in-kind donations of $7,503,530 and $7,320,904 for fixed assets and goods provided at fundraising activities for the years ended December 31, 2018 and 2017, respectively.

Donated Services

A substantial number of volunteers have donated significant amounts of time to the Foundation's program services, goals, and objectives. Although the value of these services is significant, the Foundation does not record such value in its financial statements since the criteria for recognition is not met in accordance with U.S. GAAP.

Fair Value Measurements

The Foundation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*. ASC 820 establishes a common definition for fair value to be applied under U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Measurement date is the date of the financial statements. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's estimates about the assumptions market participants would use in pricing the asset or liability developed based on the best information available under the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are directly or indirectly observable.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Income Taxes

The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no tax liability for unrelated business income for the years ended December 31, 2018 and 2017.

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program or support service are charged directly according to their natural expenditure classifications. Management and general expenses include those costs that are not directly identifiable with any specific function, but which provide for the overall support and direction of the Foundation. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Occupancy expense is allocated to various functions based on the staff count. The statements of functional expenses present the natural classification detail of expenses by function. Functional costs are defined by their purpose:

International programs relate to expenses incurred to provide grant funds to various programs in order to achieve the Foundation's programmatic goals.

Community Centers Development Program relates to expenses incurred to develop and maintain various Foundation properties often referred as community centers.

Management and general expenses relate to expenses incurred by the Foundation's offices for administration of the various programs and to manage operations of the Foundation.

Fundraising activities relate to direct costs to solicit gifts for the Foundation and to carry out events related to public education.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year financial statement presentation.

Recent Accounting Pronouncement Adopted

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted the ASU and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented except the Foundation has opted to present the liquidity and availability information for 2018 only as permitted under the ASU in the year of adoption. There was no effect on the change in net assets reported at December 31, 2017.

Recent Accounting Pronouncements to be Adopted

In May 2014, the FASB issued ASU 2015-09, *Revenue from Contracts with Customers* (Topic 606). The update establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP including those that previously followed industry-specific guidance. The principle of the update is that an entity should recognize revenue to depict the transfer of promised goods and services to customers under a contract in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for the Foundation's fiscal year 2019. Management is currently evaluating the impact that adoption of this ASU will have on the Foundation's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which is the leasing standard for both lessees and lessors. Under this update, a lessee will recognize lease assets and liabilities on the statement of financial position for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The guidance is effective for the Foundation's fiscal year 2020. Management is currently evaluating the impact that adoption of this ASU will have on the Foundation's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the current guidance providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The update also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The guidance is effective for the Foundation's fiscal year 2019. Management is currently evaluating the impact that adoption of this ASU will have on the Foundation's financial statements.

3. Liquidity and Availability Disclosure

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

		2018
Cash and cash equivalents	$	102,472,036
Liquid investments		37,802,385
Accounts receivable and other current assets		165,590
Donor agency receivables		741,749
Receivables from affiliates		2,228,752
Contributions receivable due in less than one year		37,486,913
Total	$	180,897,425

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation maintains cash and cash equivalents and investments at high liquidity to provide for resources for the purposes of programming, leveraging and co-financing external funding at any given point in time.

4. Notes Receivable

In August 2014 the Foundation gave a note (loan) of $3,750,000 to Aga Khan Hospital and Medical College Foundation to advance its charitable mission by increasing the quality of and access to medical care and education in Pakistan. The maturity date of the loan is October 1, 2033 and principal payments are not due until October 1, 2019. Interest payments are to be 1% per annum at a fixed rate. Interest only payments of $3,333 are to be paid beginning October 1, 2014 to October 1, 2018. In 2016, an additional $1,000,000 was issued. The payment terms and interest rates are the same as the original note issued. The outstanding balance as of December 31, 2018 and 2017 is $4,750,000 and $4,750,000, respectively.

In September 2015 the Foundation issued a note (loan) of $3,750,000 to University of Central Asia for a construction project in Tajikistan. The closing date of the note receivable was October 5, 2015. The maturity date of the loan is October 1, 2042 and principal payments (semi-annual payments) of $93,750 are due in April and October. Interest payments are to be 1% per annum at a fixed rate. The first payment on the note is due on April 1, 2023. Interest only payments of $18,339 are to be paid beginning March 31, 2016 to October 5, 2022. In 2016, an additional $3,750,000 was issued. The payment terms and interest rates are the same as the original note issued. The outstanding balance as of December 31, 2018 and 2017 is $7,500,000 and $7,500,000, respectively.

In February 2016 the Foundation issued another note (loan) of $1,000,000 to First Microfinance Bank of Tajikistan for providing access to finance for individuals and enterprises for poverty alleviation. The maturity date of the loan is December 31, 2022 to be repaid in a single lump sum upon final maturity. Interest payments are to be 5.28% per annum at a fixed rate. The outstanding balance as of December 31, 2018 and 2017 is $1,000,000 and $1,000,000, respectively.

5. Investments

The following table sets forth those financial assets that are recorded at fair value on a recurring basis according to the hierarchy described in ASC 820, as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 1,202,366	$ -	$ 1,202,366
Corporate bonds	-	21,111,026	-	21,111,026
International bonds	-	6,792,461	-	6,792,461
Mortgage and asset backed securities	-	7,164,730	-	7,164,730
Life insurance policies	-	25,073,035	-	25,073,035
Investment in FMFB	-	-	3,208,538	3,208,538
Total	$ -	$ 61,343,618	$ 3,208,538	$ 64,552,156

The following table sets forth those financial assets that are recorded at fair value on a recurring basis according to the hierarchy described in ASC 820, as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 5,388,184	$ -	$ 5,388,184
Life insurance policies	-	22,465,999	-	22,465,999
Investment in FMFB	-	-	3,422,888	3,422,888
Total	$ -	$ 27,854,183	$ 3,422,888	$ 31,277,071

The Foundation's certificates of deposit, corporate bonds, international bonds, and mortgage and asset backed securities are priced based on their stated interest rates and quality ratings. The cash surrender value of the life insurance policies is based on information provided by the respective insurance companies to the Foundation. The Foundation's estimated fair value for these investments is based on Level 2 inputs.

In September 2012, the Foundation entered into a shareholder agreement with First Microfinance Bank of Afghanistan ("FMFB"). The Foundation made an initial investment of $2,499,952 to acquire an equity ownership of 11.8% representing 10,504 shares. The investment is adjusted annually for the Foundation's proportionate share of the bank's earnings or losses. The Foundation recorded an unrealized loss of $214,350 for the year ended December 31, 2018. The Foundation recorded an unrealized gain of $283,868 for the year ended December 31, 2017. The Foundation's estimated fair value for these investments is based on Level 3 inputs.

Certificates of deposit totaling $564,674 and $10,338,271 at December 31, 2018 and 2017, respectively, are not included in the table above because they are recorded at cost plus accrued interest. Cash totaling $967,128 and $1,256,983 at December 31, 2018 and 2017, respectively, is not included in the above table because it is recorded at cost.

The following sets forth the reconciliation of investment balances to the accompanying statements of financial position as of December 31, 2018 and 2017, respectively:

	2018	2017
Investments per fair value table	**$ 64,552,156**	$ 31,277,071
Certificates of deposit – at cost	**564,674**	10,338,271
Cash	**967,128**	1,256,983
Ending balance	**$ 66,083,958**	$ 42,872,325

The following sets forth the reconciliation of beginning and ending balances related to fair value measurements using significant unobservable inputs (Level 3), as of December 31, 2018 and 2017, respectively:

	2018	2017
Beginning balance	**$ 3,422,888**	$ 3,139,020
Purchases and additions	**-**	-
Sales, issuances, distributions, and settlements	**-**	-
Realized and unrealized (loss) gain relating to instruments still held at the statements of financial position date	**(214,350)**	283,868
Net transfers in and out of Level 3	**-**	-
Ending balance	**$ 3,208,538**	$ 3,422,888

The following table summarizes the significant unobservable inputs the Foundation used to value its investments categorized within Level 3 as of December 31, 2018. This table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to its determination of fair values.

Description	Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity investment in FMFB	**$ 3,208,538**	**Discounted Cash Flow**	**Percentage ownership of net assets**	**11.8% of the total stocks of the bank**

The following table summarizes the significant unobservable inputs the Foundation used to value its investments categorized within Level 3 as of December 31, 2017. This table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to its determination of fair values.

Description	Fair Value at December 31, 2017	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity investment in FMFB	$ 3,422,888	Discounted Cash Flow	Percentage ownership of net assets	11.8% of the total stocks of the bank

There were no changes in valuation techniques noted for level 3 investments for 2018 and 2017.

Level 3 Sensitivity of Fair Value Measurements and Changes in Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Foundation's investments are subject to market risks resulting from changes in the market value of its investments.

6. Contributions Receivable

Contributions receivable as of December 31, 2018 and 2017, were due as follows:

	2018	2017
Amounts due in:		
Less than one year	**$ 37,486,913**	$ 37,513,755
One to five years	**115,974,230**	123,635,412
Total contributions receivable	**153,461,143**	161,149,167
Less: Present value component of discounts	**(3,787,349)**	(2,369,557)
Allowance for doubtful contributions	**(21,383,206)**	(21,526,987)
Total contributions receivable, net	**$ 128,290,588**	$ 137,252,623

7. Fixed Assets

Fixed assets as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Property held for charitable purposes:		
Land	**$ 63,938,910**	$ 63,938,910
Buildings	**45,683,017**	37,991,580
Donated assets (historic books and photographs)	**890,067**	890,067
Construction in progress	**1,443,452**	-
Subtotal	**111,955,446**	102,820,557
Assets held for administrative purposes:		
Equipment	**-**	11,502
Total fixed assets	**111,955,446**	102,832,059
Less accumulated depreciation	**(22,675,215)**	(21,329,702)
Total net fixed assets	**$ 89,280,231**	$ 81,502,357

Depreciation expense totaled $1,357,015 and $1,229,688 for the years ended December 31, 2018 and 2017, respectively.

8. Commitments and Contingencies

Leases

The Foundation has a lease for office space under a non-cancelable operating lease that will expire on May 1, 2023. The lease contains escalation provisions for increases in operating expenses and real estate taxes. During 2018 and 2017, rent expense related to this lease was $348,553 and $349,462, respectively.

Future minimum rental payments under this operating lease are as follows:

Year Ending December 31,	
2019	**$ 341,818**
2020	**350,358**
2021	**359,115**
2022	**402,234**
2023	**170,718**
	$ 1,624,243

Grant Commitments

The Foundation's Board of Directors approves annual and multi-year grants for programs in support of its tax-exempt purposes. These programs are supported by grants, including donated commodities, received from donor agencies. Grant commitments were approximately $13 million and $13 million at December 31, 2018 and 2017, respectively.

Regulatory

Federal grants are subject to audit by relevant Federal agencies. Management believes that adjustments, if any, from these audits would not have a material effect on the Foundation's financial position or change in net assets.

9. Related-Party Transactions

The Foundation is related to the Aga Khan Foundation established in Geneva, Switzerland, and has received contributions from this organization in the amounts of $207,000 and $1,247,739 in 2018 and 2017, respectively, to help offset capital expenses, operating costs and award program grant expenses. Aga Khan Foundation is an agency of Aga Khan Development Network (“AKDN”).

As of December 31, 2018 and 2017, the amounts payable to affiliates for programs approved by the Board of Directors, were $749,370 and $1,116,381, respectively. As of December 31, 2018 and 2017, amounts receivable for program advances to affiliates were $2,228,752 and $4,163,700, respectively.

In 2012, the Foundation entered into an amended shareholder agreement with the First Microfinance Bank of Afghanistan in which the Foundation made an initial investment of $2,499,952 to acquire an equity ownership of 11.8% representing 10,504 shares. The First Microfinance Bank of Afghanistan is an agency of AKDN.

The Foundation has outstanding notes (loans) due from various agencies of AKDN (see Note 4). Total outstanding balance of these notes as of December 31, 2018 and 2017 is $13,250,000 and $13,250,000, respectively.

10. Retirement Plan

The Foundation has a defined contribution retirement plan. All employees who meet the eligibility requirements can participate in the plan. Under the plan, the Foundation makes contributions based on a percentage of the payroll of those employees who participate in the plan. Costs incurred under the plan were $177,549 and $156,240 for the years ended December 31, 2018 and 2017, respectively.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2018 and 2017, consist of the following:

	2018	2017
Contributions due in future periods for general operations	**$ 131,923,958**	$ 134,419,155
Revenue restricted for specific programs	**-**	1,501,289
	$ 131,923,958	$ 135,920,444

For the year ended December 31, 2018, the Foundation released funds of $28,948,125 due to the time restriction being fulfilled and $1,501,289 for the purpose restriction being fulfilled. For the year ended December 31, 2017, the Foundation released funds of $19,888,832 due to the time restriction being fulfilled and $1,841,728 for the purpose restriction being fulfilled.

12. Subsequent Events

The Foundation evaluated subsequent events through May 16, 2019 which is the date the financial statements were available to be issued. No subsequent events were noted that required adjustments to or disclosure in the financial statements.