



Aga Khan Foundation U.S.A.

Financial Statements

Years Ended December 31, 2017 and 2016

Aga Khan Foundation U.S.A.

Financial Statements

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Aga Khan Foundation U.S.A.

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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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

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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, 2017 and 2016, 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 15, 2018

Financial Statements

Aga Khan Foundation U.S.A.

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets:		
Cash and cash equivalents	\$ 77,749,760	\$ 29,997,892
Notes receivable	13,250,000	14,250,000
Investments	42,872,325	39,736,024
Accounts receivable and other current assets	132,586	69,712
Grants receivable	-	358,928
Donor agency receivables	1,159,396	587,943
Receivables from affiliates	4,163,700	3,551,300
Contributions receivable, net	137,252,623	11,732,377
Fixed assets, net	81,502,357	74,298,311
Total assets	\$ 358,082,747	\$ 174,582,487
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 387,813	\$ 528,149
Property tax accrual	-	1,433,934
Payables to affiliates	1,116,381	985,576
Deferred rent	100,075	82,515
Deferred revenue	2,848,917	3,495,861
Total liabilities	4,453,186	6,526,035
Net assets:		
Unrestricted	217,709,117	153,849,019
Temporarily restricted	135,920,444	14,207,433
Total net assets	353,629,561	168,056,452
Total liabilities and net assets	\$ 358,082,747	\$ 174,582,487

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

Aga Khan Foundation U.S.A

Statement of Activities

<i>Year ended December 31, 2017</i>	Unrestricted	Temporarily Restricted	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	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 grants	27,734,763	-	27,734,763
Supporting services			
General and administrative expenses			
Salaries	3,038,733	-	3,038,733
Legal, accounting and consulting	156,014	-	156,014
Travel	143,668	-	143,668
Doubtful pledges provision	14,634,065	-	14,634,065
General office	259,484	-	259,484
Premises	357,689	-	357,689
Taxes and licenses (on property)	330,623	-	330,623
Resource development and communications	139,360	-	139,360
Total general and administrative expenses	19,059,636	-	19,059,636
Fundraising and public education events	1,703,058	-	1,703,058
Depreciation	1,229,688	-	1,229,688
Total supporting services	21,992,382	-	21,992,382
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 Activities

<i>Year ended December 31, 2016</i>	Unrestricted	Temporarily Restricted	Total
Revenues:			
Contributions	\$ 24,559,933	\$ 2,233,169	\$ 26,793,102
Federal grants	13,322,642	-	13,322,642
Non federal grants and contracts	976,641	337,716	1,314,357
Investment return	409,479	-	409,479
Net assets released from restrictions	4,208,673	(4,208,673)	-
Total revenues	43,477,368	(1,637,788)	41,839,579
Expenses:			
Program grants	28,073,103	-	28,073,103
Supporting services			
General and administrative expenses			
Salaries	2,747,366	-	2,747,366
Legal, accounting and consulting	192,184	-	192,184
Travel	145,243	-	145,243
Doubtful pledges recovery	(51,213)	-	(51,213)
General office	221,768	-	221,768
Premises	355,249	-	355,249
Taxes and licenses (on property)	620,538	-	620,538
Resource development and communications	150,071	-	150,071
Total general and administrative expenses	4,381,206	-	4,381,206
Fundraising and public education events	1,231,867	-	1,231,867
Depreciation	1,474,412	-	1,474,412
Total supporting services	7,087,485	-	7,087,485
Total expenses	35,160,589	-	35,160,589
Change in net assets	8,316,779	(1,637,788)	6,678,991
Net assets at beginning of year	145,532,240	15,845,221	161,377,461
Net assets at end of year	\$ 153,849,019	\$ 14,207,433	\$ 168,056,452

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

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Statements of Cash Flows

Years ended December 31,	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 185,573,109	\$ 6,678,991
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,229,688	1,474,412
Donated fixed assets included in contribution revenue	(7,210,000)	-
Stock contribution received	(3,266,865)	(887,847)
Proceeds from sale of stock contributions received	3,225,289	873,876
Realized losses on contributed stocks	41,576	13,971
Net realized and unrealized appreciation on investments	(237,006)	(276,410)
Change in cash surrender value of life insurance policies	(2,717,855)	(2,930,084)
Bad debt expense	21,651	18,233
Change in allowance for doubtful contributions	14,612,414	(69,446)
Present value component of discounts on contributions receivable	2,153,877	(14,057)
(Increase) decrease in assets:		
Accounts receivable and other current assets	(62,874)	60,653
Grants receivable	358,928	(358,928)
Donor agency receivables	(571,453)	3,977,878
Receivables from affiliates	(612,400)	810,493
Contributions receivable	(142,308,188)	384,068
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(140,336)	248,256
Property tax accrual	(1,433,934)	(1,942,528)
Payables to affiliates	130,805	(1,586,871)
Deferred rent	17,560	25,505
Deferred revenue	(646,944)	1,227,773
Net cash provided by operating activities	48,157,042	7,727,938
Cash flows from investing activities		
Purchase of Investments	(181,440)	(104,333)
Notes receivable - payment received	1,000,000	-
Notes receivable - loans made	-	(6,750,000)
Fixed asset purchases	(1,223,734)	(698,000)
Net cash used in investing activities	(405,174)	(7,552,333)
Net increase in cash and cash equivalents	47,751,868	175,605
Cash and cash equivalents, beginning of year	29,997,892	29,822,287
Cash and cash equivalents, end of year	\$ 77,749,760	\$ 29,997,892

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

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Notes to Financial Statements

1. Organization

Aga Khan Foundation U.S.A. (the "Foundation") was incorporated on October 9, 1981 to promote development and social welfare through philanthropic activities. The Foundation's principal sources of financial support are grants and contributions from individuals, government agencies, and 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, 2017 and 2016. At December 31, 2017 and 2016, the Foundation held approximately \$77,750,000 and \$30,000,000, 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.

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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 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.

Grants Receivable

The Foundation receives funding from grants received from several grantors for direct and indirect program costs. This funding is generally subject to restrictions, which must be met through incurring qualifying expenses for particular programs. These balances are receivable in less than one year and are carried at undiscounted cost.

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. Leasehold improvements are amortized over the shorter of the remaining term of the lease or their estimated useful life of five 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, 2017 and 2016, respectively and included as fixed asset 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.

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Classification of Net Assets

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

Unrestricted Net Assets

Unrestricted net assets generally result from unrestricted contributions, unconditional promises to give, unconditional pledges, donations, and Federal grants. They also result from realized and unrealized gains and losses on contributed stocks and interest from investing in income producing assets. Netted against the revenues are expenses related to funding program activities, the making of grants, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets

Temporarily restricted net assets generally result from contributions pledged by donors for use in future time periods or for any restricted purposes. When these restrictions are met, temporarily restricted net assets are released from restrictions and reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets generally result from donor contributions whose use is limited by specific donor imposed restrictions that neither expire by the passage of time, nor can be fulfilled or otherwise removed by the actions of the Foundation. The Foundation had no permanently restricted net assets at December 31, 2017 and 2016.

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 unrestricted unless specifically restricted by the donor. Contributions reported as temporarily restricted 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 unrestricted. 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 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.

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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 \$7,320,904 and \$115,070 for fixed assets and goods provided at fundraising activities for the years ended December 31, 2017 and 2016, 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*. FASB ASC 820 establishes a common definition for fair value to be applied under generally accepted accounting principles 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.

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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, 2017 and 2016.

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 2014.

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 supporting services have been summarized in the statements of activities based on their respective functions. Certain costs, other than depreciation, have been allocated to the programs and supporting services benefited as presented in the statements of activities. Functional costs are defined by their purpose:

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

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

Fundraising and public education events 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 2016 financial statements have been reclassified to conform with the current year financial statement presentation.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (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

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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 guidance 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 guidance will have on the Foundation's financial statements.

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 internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The guidance is effective for the Foundation's fiscal year 2018. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact that adoption of this guidance will have on the Foundation's financial statements.

3. 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, 2017 and 2016 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

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issued. The payment terms and interest rates are the same as the original note issued. The outstanding balance as of December 31, 2017 and 2016 is \$ 7,500,000 and \$7,500,000, respectively.

In February 2016 the Foundation issued a note (loan) of \$1,000,000 to First Microfinance Bank of Tajikistan for purposes that include providing access to finance for individuals and enterprises for poverty alleviation. The maturity date of the loan was June 7, 2017 and to be paid in a single lump sum upon final maturity. Interest payments are to be 3.96% per annum at a fixed rate. The note was paid off in June 2017. The outstanding balance as of December 31, 2017 and 2016 is \$0 and \$1,000,000, 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, 2017 and 2016 is \$1,000,000 and \$1,000,000, respectively.

4. Investments

The following table sets forth the fair values of 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 following table sets forth the fair values of 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, 2016:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 6,016,440	\$ -	\$ 6,016,440
Life insurance policies	-	19,748,145	-	19,748,145
Investment in FMFB	-	-	3,139,020	3,139,020
Total	\$ -	\$ 25,764,585	\$ 3,139,020	\$ 28,903,605

The Foundation's certificates of deposit 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

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unrealized gain of \$283,868 and \$266,712 for the years ended December 31, 2017 and 2016, respectively. The Foundation's estimated fair value for these investments is based on Level 3 inputs

Certificates of deposit totaling \$10,338,271 and \$10,257,372 at December 31, 2017 and 2016, respectively, are not included in the table above because they are recorded at cost plus accrued interest. Cash totaling \$1,256,983 and \$575,047 at December 31, 2017 and 2016, 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 statement of financial position as of December 31, 2017 and 2016, respectively:

	2017	2016
Investments per fair value table	\$ 31,277,071	\$ 28,903,605
Certificates of deposit - at cost	10,338,271	10,257,372
Cash	1,256,983	575,047
Ending balance	\$ 42,872,325	\$ 39,736,024

Investment return for the years ended December 31, 2017 and 2016, consisted of the following:

	2017	2016
Interest income	\$ 398,094	\$ 314,038
Unrealized and realized appreciation, net	237,006	279,410
Change in life insurance policies cash surrender value, net of premiums paid	(269,834)	(183,969)
Ending balance	\$ 365,266	\$ 409,479

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, 2017 and 2016, respectively:

	2017	2016
Beginning balance	\$ 3,139,020	\$ 2,872,308
Purchases and additions	-	-
Sales, issuances, distributions, and settlements	-	-
Realized and unrealized gains relating to instruments still held at the statements of financial position date	283,868	266,712
Net transfers in and out of Level 3	-	-
Ending balance	\$ 3,422,888	\$ 3,139,020

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The following table summarizes the significant unobservable inputs the Foundation used to value its investments categorized within Level 2 and 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)
Life insurance policies	\$ 22,465,999	Cash Surrender Value	N/A	N/A
Equity investment in FMFB	\$ 3,422,888	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 2 and Level 3 as of December 31, 2016. 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, 2016	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Life insurance policies	\$ 19,748,145	Cash Surrender Value	N/A	N/A
Equity investment in FMFB	\$ 3,139,020	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 2 and level 3 investments for 2017 and 2016.

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.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

5. Contributions Receivable

Contributions receivable as of December 31, 2017 and 2016, were due as follows:

	2017	2016
Amounts due in:		
Less than one year	\$ 37,513,755	\$ 11,835,461
One to five years	123,635,412	7,027,169
Total contributions receivable	161,149,167	18,862,630
Less: Present value component of discounts	(2,369,557)	(215,680)
Allowance for doubtful contributions	(21,526,987)	(6,914,573)
Total contributions receivable, net	\$137,252,623	\$ 11,732,377

6. Fixed Assets

Fixed assets as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Property held for charitable purposes:		
Land	\$ 63,938,910	\$ 60,651,176
Buildings	37,991,580	32,845,580
Donated assets (historic books and photographs)	890,067	890,067
Subtotal	102,820,557	94,386,823
Assets held for administrative purposes:		
Equipment	11,502	22,900
Total fixed assets	102,832,059	94,409,723
Less accumulated depreciation	(21,329,702)	(20,111,412)
Total net fixed assets	\$ 81,502,357	\$ 74,298,311

Depreciation expense totaled \$1,229,688 and \$1,474,412 for the years ended December 31, 2017 and 2016, respectively.

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Notes to Financial Statements

7. 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 2017 and 2016, rent expense related to this lease was \$357,689 and \$355,249, respectively.

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

Year Ending December 31,

2018	\$ 333,497
2019	341,818
2020	350,358
2021	359,115
2022	402,234
Thereafter	170,718

\$ 1,957,740

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 \$23 million at December 31, 2017 and 2016, respectively.

Property Taxes

The Foundation had a property tax accrual related to one of its properties in Houston, Texas. The outstanding accrual balance as of December 31, 2016 was \$1,433,934, which was paid during the year ended December 31, 2017. In 2017 the Foundation filed a partial exemption for taxes related to the Houston property in Harris County Texas but no decision has been received yet as of the report date and therefore no accrual is recorded in 2017.

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 changes in net assets.

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Notes to Financial Statements

8. 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 \$1,247,739 and \$1,706,188 in 2017 and 2016, 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, 2017 and 2016, the amounts payable to affiliates for programs approved by the Board of Directors, were \$1,116,381 and \$985,576, respectively. As of December 31, 2017 and 2016, amounts receivable for program advances to affiliates were \$4,163,700 and \$3,551,300, 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 3). Total outstanding balance of these notes as of December 31, 2017 and 2016 is \$13,250,000 and \$14,250,000, respectively.

9. 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 \$156,240 and \$109,850 for the years ended December 31, 2017 and 2016, respectively.

10. Expenses

The following presents the expenses classified by functional categories. Depreciation expense on buildings in the amount of \$1,227,388 and \$1,472,112 was allocated to program grant expenses in 2017 and 2016, respectively. Depreciation expense on equipment in the amount of \$2,300 and \$2,300 was allocated to general and administrative expenses in 2017 and 2016, respectively. Staffing costs in the amount of \$626,484 and \$371,882 for 2017 and 2016, respectively, were allocated to program grant expenses from general and administrative expenses.

<i>December 31,</i>	2017	2016
Program grants	\$ 29,588,635	\$ 29,917,098
General and administrative	18,435,452	4,011,624
Fundraising and public donation events	1,703,058	1,231,867
Total expenses	\$ 49,727,145	\$ 35,160,589

Aga Khan Foundation U.S.A.

Notes to Financial Statements

11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016, consist of the following:

	2017	2016
Contributions due in future periods for general operations	\$ 134,419,155	\$ 11,949,054
Revenue restricted for specific programs	1,501,289	2,258,379
	<u>\$ 135,920,444</u>	<u>\$ 14,207,433</u>

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. For the year ended December 31, 2016, the Foundation released funds of \$2,664,212 due to the time restriction being fulfilled and approximately \$1,544,461 for the purpose restriction being fulfilled.

12. Subsequent Events

The Foundation evaluated subsequent events through May 15, 2018 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.