Aga Khan Foundation U.S.A.

Financial Statements, Schedule of Expenditures of Federal Awards, and Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance
Years Ended December 31, 2022 and 2021

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Aga Khan Foundation U.S.A.

Contents

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Aga Khan Foundation U.S.A.** (the "Foundation"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Aga Khan Foundation U.S.A.** as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2023 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

BDO USA, LLP

McLean, Virginia
May 26, 2023

Financial Statements

Aga Khan Foundation U.S.A.

Statements of Financial Position

December 31,	2022	2021
Assets:		
Cash and cash equivalents	**$ 28,605,514**	$ 49,337,832
Notes receivable (Notes 4 and 10)	**14,189,656**	14,706,897
Investments (Note 5)	**186,427,995**	176,988,044
Cash surrender value of life insurance policies	**32,390,811**	30,614,930
Accounts receivable and other current assets	**1,980,797**	1,901,627
Donor agency receivables	**3,096,295**	2,439,976
Receivables from affiliates (Note 10)	**3,218,996**	3,681,220
Contributions receivable, net (Note 6)	**73,221,426**	98,639,585
Operating lease right-of-use assets	**2,303,656**	-
Fixed assets, net (Note 7)	**222,967,813**	136,273,642
Total assets	**$ 568,402,959**	$ 514,583,753
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	**$ 14,833,884**	$ 6,631,931
Operating lease liabilities	**2,431,228**	-
Property tax accrual	**104,506**	760,852
Payables to affiliates (Note 10)	**11,317,560**	9,677,395
Deferred rent	**-**	107,812
Refundable advances	**697,668**	990,443
Total liabilities	**29,384,846**	18,168,433
Net assets:		
Without donor restrictions	**335,940,466**	278,612,294
With donor restrictions (Note 12)	**203,077,647**	217,803,026
Total net assets	**539,018,113**	496,415,320
Total liabilities and net assets	**$ 568,402,959**	$ 514,583,753

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

Aga Khan Foundation U.S.A.

Statement of Activities

Year ended December 31, 2022	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 35,764,027	$ 19,911,951	$ 55,675,978
Contributions of nonfinancial assets	13,754,499	-	13,754,499
Federal grants	9,898,214	-	9,898,214
Non federal grants	55,120	4,703,947	4,759,067
Investment return, net	1,946,785	-	1,946,785
Other income	871,246	-	871,246
Net assets released from restrictions	39,341,277	(39,341,277)	-
Total revenues	101,631,168	(14,725,379)	86,905,789
Expenses:			
Program services			
International programs	37,251,550	-	37,251,550
Community centers development program	2,032,689	-	2,032,689
Supporting services			
Management and general	992,275	-	992,275
Fundraising	2,281,046	-	2,281,046
Total expenses	42,557,560	-	42,557,560
Change in net assets before impairment loss	59,073,608	(14,725,379)	44,348,229
Nonoperating activities			
Impairment loss on FMFB investment	(1,745,436)	-	(1,745,436)
Change in net assets	57,328,172	(14,725,379)	42,602,793
Net assets at beginning of year	278,612,294	217,803,026	496,415,320
Net assets at end of year	$ 335,940,466	$ 203,077,647	$ 539,018,113

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

Aga Khan Foundation U.S.A.

Statement of Activities

Year ended December 31, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	$ 36,516,989	$ 31,376,813	$ 67,893,802
Federal grants	7,824,277	-	7,824,277
Non federal grants	672,906	4,249,414	4,922,320
Investment return, net	(1,011,280)	-	(1,011,280)
Other income	(120,024)	-	(120,024)
Net assets released from restrictions	30,183,836	(30,183,836)	-
Total revenues	74,066,704	5,442,391	79,509,095
Expenses:			
Program services			
International programs	42,463,025	-	42,463,025
Community centers development program	2,481,958	-	2,481,958
Supporting services			
Management and general	1,168,103	-	1,168,103
Fundraising	1,395,547	-	1,395,547
Total expenses	47,508,633	-	47,508,633
Change in net assets	26,558,071	5,442,391	32,000,462
Net assets at beginning of year	252,054,223	212,360,635	464,414,858
Net assets at end of year	$ 278,612,294	$ 217,803,026	$ 496,415,320

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

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

Year Ended December 31, 2022	Program Services			Supporting Services			
	International Programs	**Community Centers Development Program**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Supporting Services**	**Total Expenses**
Direct program expenses	$ 34,451,694	$ 3,533	$ 34,455,227	$ -	$ 11,052	$ 11,052	$ 34,466,279
Staffing costs	1,012,082	-	1,012,082	441,341	1,228,734	1,670,075	2,682,157
Legal, accounting and consulting	473,937	28,330	502,267	154,240	15,100	169,340	671,607
Travel	78,641	-	78,641	82,510	61,913	144,423	223,064
Adjustment to allowance for doubtful pledges	887,018	(4,975)	882,043	-	12,376	12,376	894,419
General office	1,865	72	1,937	137,257	61,250	198,507	200,444
Occupancy	113,919	-	113,919	29,210	165,523	194,733	308,652
Communications	-	-	-	8,180	13,134	21,314	21,314
Event expenses	-	-	-	-	271,346	271,346	271,346
Technology	4,065	-	4,065	26,336	2,888	29,224	33,289
Licenses/processing fees	52,165	560	52,725	33,028	236,633	269,661	322,386
Property taxes and licenses	-	127,364	127,364	-	-	-	127,364
Other support cost	176,164	-	176,164	73,930	201,097	275,027	451,191
Depreciation	-	1,877,805	1,877,805	6,243	-	6,243	1,884,048
	$ 37,251,550	$ 2,032,689	$ 39,284,239	$ 992,275	$ 2,281,046	$ 3,273,321	$ 42,557,560

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

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

Year Ended December 31, 2021	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	$ 41,970,236	$ -	$ 41,970,236	$ -	$ -	$ -	$ 41,970,236
Staffing costs	847,013	-	847,013	474,014	725,046	1,199,060	2,046,073
Legal, accounting and consulting	360,334	26,965	387,299	227,596	41,490	269,086	656,385
Travel	639	-	639	18,603	13,379	31,982	32,621
Adjustment to allowance for doubtful pledges	(1,058,316)	(77,000)	(1,135,316)	-	(37,002)	(37,002)	(1,172,318)
General office	79,056	-	79,056	112,432	91,419	203,851	282,907
Occupancy	93,507	-	93,507	132,009	99,007	231,016	324,523
Communications	33,353	-	33,353	-	73,308	73,308	106,661
Event expenses	-	-	-	-	85,613	85,613	85,613
Licenses/processing fees	-	-	-	-	158,014	158,014	158,014
Property taxes and licenses	-	492,650	492,650	9,751	-	9,751	502,401
Other support cost	137,203	-	137,203	193,698	145,273	338,971	476,174
Depreciation	-	2,039,343	2,039,343	-	-	-	2,039,343
	$ 42,463,025	$ 2,481,958	$ 44,944,983	$ 1,168,103	$ 1,395,547	$ 2,563,650	$ 47,508,633

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

Aga Khan Foundation U.S.A.

Statements of Cash Flows

Years ended December 31,	**2022**	2021
Cash flows from operating activities		
Change in net assets	$ **42,602,793**	$ 32,000,462
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,884,048**	2,039,343
Contributions of non-financial assets	**(13,754,499)**	-
Noncash lease expenses	**258,557**	-
Impairment loss on FMFB investment	**1,745,436**	-
Stock contribution received	**(971,024)**	(1,681,034)
Proceeds from sale of stock contributions received	**959,675**	1,664,305
Realized losses on contributed stock	**11,349**	16,729
Net realized and unrealized (gain) loss on investments	**(720,399)**	847,517
Change in cash surrender value of life insurance policies	**(1,775,881)**	(1,480,574)
Change in allowance for doubtful contributions	**894,419**	(1,172,318)
Present value component of discounts on contributions receivable	**(460,207)**	(2,216,723)
(Increase) decrease in assets:		
Accounts receivable and other current assets	**(79,170)**	(929,508)
Donor agency receivables	**(656,319)**	(2,314,098)
Receivables from affiliates	**462,224**	719,970
Contributions receivable	**24,983,947**	36,212,623
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	**(4,284,292)**	(390,077)
Property tax accrual	**(656,346)**	760,852
Payables to affiliates	**1,640,165**	4,383,854
Principal reduction in operating liabilities	**(238,797)**	-
Deferred rent	**-**	4,550
Refundable advances	**(292,775)**	175,549
Net cash provided by operating activities	**51,552,904**	68,641,422
Cash flows from investing activities		
Purchases of investments	**(143,136,703)**	(141,573,447)
Proceeds from sales of investments	**132,671,715**	116,451,488
Notes receivable - payment received	**517,241**	517,241
Fixed asset purchases	**(62,337,475)**	(19,480,932)
Net cash used in investing activities	**(72,285,222)**	(44,085,650)
Net (decrease) increase in cash and cash equivalents	**(20,732,318)**	24,555,772
Cash and cash equivalents, beginning of year	**49,337,832**	24,782,060
Cash and cash equivalents, end of year	$ **28,605,514**	$ 49,337,832
Supplemental Disclosures of Non-cash Investing Activity:		
Fixed assets included in accounts payable and accrued liabilities	$ **12,486,245**	$ 4,706,527

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 ("AKF") established in Geneva, Switzerland. The Foundation is a member of the Aga Khan Development Network ("AKDN").

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. Accordingly, revenue is recognized when earned and expenses are recognized when incurred.

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.

Concentrations 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, 2022 and 2021. At December 31, 2022 and 2021, the Foundation held approximately $25,728,000 and $45,348,000, 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 two high quality institutions and has established diversification and maturity guidelines to reduce risk and maintain liquidity. The Foundation maintains separate cash, assets and investment accounts with two major financial institutions that combine the balances of all Foundation accounts. However, the majority of the investments are held with one of the major institutions with highest credit rating.

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

Investments

Investments include certificates of deposit with original maturities of greater than three months, bonds, treasury securities and mortgage and asset backed securities. Unrealized and realized gains and losses are included in the statements of activities during the period in which they occur.

Cash Surrender Value of Life Insurance Policies

The cash surrender value of the life insurance policies is recorded 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, are recognized in the accompanying statements of activities as part of other income.

Donor Agency Receivables

The Foundation receives grants from various federal agencies, private foundations, and other organizations. This funding is subject to various contractual restrictions. These balances are due from the grantor based on terms outlined within the underlying grant agreement. An allowance for doubtful accounts is provided based on management's judgment, including such factors as prior collection history over a period of time. Management has concluded no such allowance is necessary at December 31, 2022 and 2021.

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. Land is not depreciated or amortized. The Foundation capitalizes donated assets at fair value. The Foundation does not recognize depreciation on certain fixed assets as the Foundation deems these items to have historical value that is worth preserving perpetually and intends to protect and preserve these assets.

When assets are sold or otherwise disposed, the assets and related accumulated depreciation are removed from the accounts, and any remaining gain or loss recognized in the current period. Repairs and maintenance are charged to expense when incurred. Costs associated with construction-in-progress are held until the asset is placed in service, at which point the asset is transferred out of construction-in-progress and depreciated over its estimated useful life.

Impairment of Long-Lived Assets

The Foundation reviews the carrying amounts of fixed 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.

Refundable Advances

The Foundation recognizes revenue from conditional grants as conditions are met. When cash is received before conditions are met, a refundable advance is recorded which is classified as a liability in the statements of financial position.

Deferred Rent

Prior to its adoption of the Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) No. 2016-02 (Topic 842), *Leases*, the Foundation recorded deferred rent. Deferred rent represented the difference between rent expense recognized and rental payments made, as stipulated in each lease. Under the new lease standard, there is no deferred rent, thus deferred rent is reported within the statements of financial position at December 31, 2021 but not at December 31, 2022.

Leases

In accordance with Topic 842, leases arise from contractual obligations that convey the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. At the inception of the contract, the Foundation determines if an arrangement contains a lease based on whether there is an identified asset and whether the Foundation controls the use of the identified asset. The Foundation also determine whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents the Foundation’s right to use an underlying asset and a lease liability represents the Foundation’s obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. The implicit rates for the Foundation’s leases are not readily determinable; therefore, the Foundation has elected to use a risk-free discount rate at the lease commencement date for all new leases and at January 1, 2022 (the “Adoption Date”).

The Foundation’s real estate operating leases typically include non-lease components such as operating costs and char charges. The Foundation has elected to include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities to the extent that they are fixed. Non-lease components that are neither fixed nor variable based on an index or rate are expensed as incurred as variable lease payments.

As a matter of policy, the Foundation has elected to exclude leases with terms of 12 months or less (“short-term”) from the statements of financial position. Short-term lease expense is recognized on a straight-line basis over the expected term of the lease. The Foundation did not have short-term leases as of December 31, 2022.

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

Contributions and unconditional grants which includes non-federal grants, including unconditional promises to give, are recognized in the period received in accordance with FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). 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.

Contributions are reported at fair value, which is net of estimated uncollectable amounts. An allowance for doubtful receivables is recorded based on aging of contributions receivable, past collection history, donors payment history and expected credit losses. Contributions that are expected to be collected in more than one year are recorded as the present value for the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

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

Federal Grants

Grants awarded by federal agencies are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes, and revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreements are met. 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 refundable advances.

As of December 31, 2022 and 2021, the Foundation had remaining available award balances on the federal grants of $15,565,422 and $24,748,995, respectively. These award balances are not recognized as assets and will be recognized as revenue as the project progress and conditions are met, generally as expenses are incurred.

Other Income

Rental income from a short-term operating lease is recognized on a straight-line basis over the period relating to the rental. Changes in cash surrender value, net of premiums paid, were recognized in the accompanying statements of activities as part of other income.

Contributed Nonfinancial Assets

During the years ended December 31, 2022 and 2021, contributions of nonfinancial assets recognized in the statements of activities, none of which had donor-imposed restrictions include the following:

	2022	2021
Land	$ 4,587,486	$ -
Buildings	9,167,013	-
Total nonfinancial contributions	$ 13,754,499	$ -

During 2022, the Foundation received contributions of land and buildings to be used as community centers. In valuing the contributed buildings and land, the Foundation estimated the fair value on the basis of recent comparable sales prices in the real estate markets where the land and buildings were donated.

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 FASB Accounting Standards Codification ("ASC") Topic 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, 2022 and 2021.

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 2019.

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 and other support costs are 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 fundraising and public education.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform with the current year financial statement presentation. The cash surrender value of policies was removed from investments and classified separately in the statements of financial position, and the investment in FMFB in Note 5 was removed from the fair value table.

Recently Adopted Authoritative Guidance

In September 2020, the FASB issued ASU No. 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires disclosure of contributed nonfinancial assets in a separate line item within the statements of activities, disclosure of the policy about monetizing rather than utilizing contributed nonfinancial assets and qualitative information about those monetized or utilized assets during the fiscal year, and a description of any donor-imposed restrictions on the contributed nonfinancial assets. This guidance must be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. The Foundation adopted the guidance for the fiscal year ended December 31, 2022. The impact of this ASU is disclosed in the financial statements.

In 2022, management adopted FASB Topic 842, and additional related ASUs issued to clarify and update the guidance in Topic 842. Topic 842 modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. Management adopted Topic 842 using the modified retrospective transition method, under which amounts in prior periods presented herein were not restated. For contracts existing at the time of adoption, management elected the practical expedient and did not reassess (i) whether any are or contain leases, (ii) lease classification, and (iii) initial direct costs.

The Foundation did not use hindsight for the purpose of determining the lease term. Rather, the Foundation evaluated the leases' renewal and termination options.

For the Foundation, the adoption of Topic 842 resulted in the following as of the Adoption Date:

Recognition of:		
Operating lease right-of-use assets	$	**2,562,213**
Operating lease liabilities	$	**2,670,025**
Derecognition of:		
Deferred rent	$	**107,812**

Recent Accounting Pronouncements to be Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* The guidance will change how entities account for credit losses on financial assets. It applies to all entities but excludes promises to give. The ASU is effective for the Foundation's fiscal year ending December 31, 2023. Management is currently evaluating the impact of this ASU on the Foundation's financial statements.

The Foundation has assessed other accounting pronouncements issued or effective during the year ended December 31, 2022 and deemed they were not applicable to the Foundation or are not anticipated to have a material effect on the financial statements.

3. Liquidity and Availability of Resources

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

	2022	2021
Cash and cash equivalents	**$ 28,605,514**	$ 49,337,832
Investments	**186,427,995**	176,988,044
Accounts receivable and other current assets	**1,980,797**	1,901,627
Donor agency receivables	**3,096,295**	2,439,976
Receivables from affiliates	**3,218,996**	3,681,220
Notes receivable	**14,189,656**	14,706,897
Contributions receivable, net	**73,221,426**	98,639,585
Total financial assets	**310,740,679**	347,695,181
Less: amounts unavailable for general expenditures within one year, due to:		
Notes receivable due in more than one year	**(13,331,883)**	(14,189,656)
Net assets with donor restrictions	**(203,077,647)**	(217,803,026)
Investments with liquidity horizons greater than one year	**(151,947)**	(2,246,491)
Amounts held for others	**(1,000,000)**	(1,000,000)
Total amounts unavailable for general expenditures within one year	**(217,561,477)**	(235,239,173)
Financial assets available to meet cash needs for general expenditures within one year	**$ 93,179,202**	$ 112,456,008

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

The Foundation issued a note (loan) 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 loan matures on October 1, 2033 and principal payments (semi-annual payments) of $258,621 are due in April and October beginning October 2019. Interest is at 1% per annum. The outstanding balance of the note as of December 31, 2022 and 2021 is $5,689,656 and $6,206,897, respectively.

The Foundation issued a note (loan) to University of Central Asia for a construction project in Tajikistan. The loan matures on October 1, 2042 and principal payments (semi-annual payments) of $93,750 are due in April and October of each year. Interest is at 1% per annum. Interest only payments are to be paid through October 2022 and the first principal payment is due on April 1, 2023. The outstanding balance of the note as of December 31, 2022 and 2021 is $7,500,000 for each year.

The Foundation issued a note (loan) of $1,000,000 to First Microfinance Bank of Tajikistan to provide access to financing for individuals and enterprises for poverty alleviation. The maturity date of the loan is September 30, 2023 to be repaid in a single lump sum upon final maturity. Interest is at 1.76% per annum. The outstanding balance as of December 31, 2022 and 2021 is $1,000,000 for each year.

The Foundation reviews the notes receivable annually for impairment. No indicators of impairment were identified as of December 31, 2022 and 2021.

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, 2022:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 127,320,944	$ -	$ 127,320,944
Corporate bonds	-	26,863,086	-	26,863,086
International bonds	-	13,493,101	-	13,493,101
Government Agency bonds	-	4,654,404	-	4,654,404
U.S. Treasury securities	9,175,527	-	-	9,175,527
Total	$ 9,175,527	$ 172,331,535	$ -	$ 181,507,062

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, 2021:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 17,792,675	$ -	$ 17,792,675
Corporate bonds	-	91,187,585	-	91,187,585
International bonds	-	26,021,219	-	26,021,219
Mortgage and asset backed securities	-	7,774,689	-	7,774,689
Government Agency bonds	-	11,055,475	-	11,055,475
Total	$ -	$ 153,831,643	$ -	$ 153,831,643

The Foundation's certificates of deposit, corporate bonds, international bonds, Government Agency bonds, U.S. Treasury securities and mortgage and asset backed securities are priced based on their stated interest rates and quality ratings.

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 Foundation records the investment using the equity method, reviewing the investment annually for impairment. 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 $349,108 and $993,360 for the years ended December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, this investment was written down by $1,745,436. No impairment loss was recorded as of December 31, 2021.

Cash included with investments totaling $4,768,986 and $20,909,910 at December 31, 2022 and 2021, respectively, is not included in the above fair value tables 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, 2022 and 2021, respectively:

	2022	2021
Investments per fair value table	**$ 181,507,062**	$ 153,831,643
Investment in FMFB	**151,947**	2,246,491
Cash	**4,768,986**	20,909,910
Ending balance	**$ 186,427,995**	$ 176,988,044

6. Contributions Receivable

Contributions receivable as of December 31, 2022 and 2021, were due as follows:

	2022	2021
Amounts due in:		
Less than one year	$ 80,971,464	$ 68,033,140
One to five years	11,941,975	49,864,247
Total contributions receivable	92,913,439	117,897,387
Less: present value component of discounts (discounted at rates between 0.58% and 6.54%)	(364,125)	(824,332)
Allowance for doubtful contributions	(19,327,888)	(18,433,470)
Total contributions receivable, net	$ 73,221,426	$ 98,639,585

7. Fixed Assets

Fixed assets as of December 31, 2022 and 2021 consist of the following:

	2022	2021
Property held for charitable purposes:		
Land	$ 76,018,354	$ 71,430,868
Buildings	62,663,496	53,496,482
Furniture, fixture and equipment	31,217	31,217
Construction-in-progress	114,177,720	39,354,001
Total fixed assets	252,890,787	164,312,568
Less: accumulated depreciation	(29,922,974)	(28,038,926)
Total fixed assets, net	$ 222,967,813	$ 136,273,642

Depreciation expense totaled $1,884,048 and $2,039,343 for the years ended December 31, 2022 and 2021, respectively.

8. Leases

The Foundation’s operating lease consists of a real estate lease for its office space. The office lease expires on March 31, 2031. The lease agreement for the year ended December 31, 2022 is accounted for under Topic 842; for the year ended December 31, 2021 the lease was accounted for under Topic 840 *Leases*.

Upon adoption of Topic 842 and as described in Note 2, the Foundation elected numerous practical expedients with respect to leases existing as of January 1, 2022.

The Foundation's real estate lease contains variable costs for expense which are not based on an index or rate. These variable lease payments are determined based on actual expenses incurred by the lessor and passed to the Foundation on a periodic basis. The Foundation expenses these nonlease components as incurred.

The real estate lease includes a termination option, available at the Foundation's discretion. Because the Foundation is not reasonably certain to exercise this option, the Foundation has included the payments associated with the original term of the lease in the right-of-use assets and liability recognized as of December 31, 2022. There is no renewal option for the real estate lease.

Operating and variable expenses included the statements of activities for the year ended December 31, 2022, which is included in "Occupancy" in the statements of functional expenses are as follows:

Operating lease expenses	$	298,792
Variable lease expenses		3,105
Total lease expenses	$	301,897

The weighted-average remaining lease term and discount rate related to the Foundation's lease liabilities as of December 31, 2022 were as follows:

Weighted average remaining lease term	8.25 years
Weighted average discount rate	1.58 %

Future maturities of lease liabilities are as follows:

Years ending December 31,		
2023	$	286,023
2024		293,188
2025		300,526
2026		308,039
2027		315,726
Thereafter		1,089,108
Total lease payments		2,592,610
Less: imputed interest		(161,382)
Total lease liabilities	$	2,431,228

Previous lease standard – Transitional disclosure

The future minimum lease payments associated with the Foundation's real estate lease as of December 31, 2021 are as follows:

Years Ending December 31		
2022	$	279,032
2023		286,023
2024		293,188
2025		300,527
2026		308,039
Thereafter		1,404,833
	$	2,871,642

Rent expense under operating leases classified under ASC 840 totaled $317,360 for the year ended December 31, 2021.

9. Commitments and Contingencies

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 are approximately $19 million and $15 million at December 31, 2022 and 2021, respectively.

Other Commitment

The Foundation has entered into a construction contract for the Ismaili Center Houston. Approximately $159.4 million in remaining construction commitments are projected as of December 31, 2022.

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.

10. Related-Party Transactions

The Foundation receives annual contributions from AKF to assist in offsetting capital expenses, operating costs and award program grant expenses. AKF is an agency of AKDN. During the years ended December 31, 2022 and 2021, the Foundation received no contributions from AKF.

For certain awards, the Foundation provides to other AKDN agencies sub-agreements to implement a portion of the grant activities. Expenses from sub-agreements are recognized as the related reimbursable expenses are incurred by these agencies. Funds advanced by the Foundation to these agencies in excess of the AKDN agencies cumulative expenses are reported as a receivable from affiliates; AKDN agencies cumulative expenses in excess of funds provided by the Foundation are reported as payable to affiliates.

As of December 31, 2022 and 2021, amounts payable to affiliates totaled $11,317,560 and $9,677,395, respectively. As of December 31, 2022, and 2021, amounts receivable from affiliates totaled $3,218,996 and $3,681,220, respectively.

In 2012, the Foundation entered into a 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. See Note 5.

The Foundation has outstanding notes (loans) due from various agencies of AKDN (see Note 4). The total outstanding balances of these notes as of December 31, 2022 and 2021 is $14,189,656 and $14,706,897, respectively.

11. Retirement Plan

The Foundation has a defined contribution retirement plan (the 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. Contributions recorded to the Plan totaled $123,488 and $106,005 for the years ended December 31, 2022 and 2021, respectively.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021, consist of the following:

	2022	2021
Contributions due in future periods for general operations	**$ 61,700,296**	$ 78,728,314
Contributions purpose restricted for other projects	**6,791,306**	4,474,936
Contributions purpose and time restricted for Ismaili Center Houston	**134,586,045**	134,599,776
	$ 203,077,647	$ 217,803,026

For the year ended December 31, 2022, the Foundation released funds of $36,953,700 due to the time restriction being fulfilled for general operations and $2,387,577 for the purpose restriction being fulfilled for other projects. For the year ended December 31, 2021, the Foundation released funds of $29,831,269 due to the time restriction being fulfilled for general operations and $352,567 for the purpose restriction being fulfilled for other projects. In accordance with Topic 958 *Not-For-Profit Entities*, the contributions restricted for the Ismaili Center Houston, which is currently under construction will be reclassified to net assets without donor restrictions at the time the building is placed in service.

13. Subsequent Events

The Foundation evaluated subsequent events through May 26, 2023 which is the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Schedule of Expenditures of Federal Awards

Aga Khan Foundation U.S.A

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Grant Award Number	Pass-through Entity Identifying Number	Passed through Subrecipients	Total Federal Expenditures
U.S. Agency for International Development (USAID)					
USAID Direct Awards:					
The YETU Initiative	98.001	AID-615-A-14-00002	N/A	$ -	$ 1,343,940
THRIVE Tajikistan	98.001	72011518CA0004	N/A	2,071,296	3,496,681
Local Impact: A Transformative New Partnership in Africa and Asia	98.001	7200AA19LE00002	N/A	703,844	4,892,859
Total USAID Direct Awards				2,775,140	9,733,480
USAID Pass-Through Awards:					
CSM-STAND - Asia/EE/LAC Leader Award Activities	98.001	7200AA21LE00006	000-015797	-	76,592
CSM-STAND - Africa, MENA Leader Award Activities	98.001	7200AA21LE00004	000-015576	-	85,966
Total USAID Pass-Through Awards				-	162,558
Total U.S. Agency for International Development				2,775,140	9,896,038
Total Expenditures of Federal Awards				$ 2,775,140	$ 9,896,038

See accompanying notes to Schedule of Expenditures of Federal Awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of **Aga Khan Foundation U.S.A. (**the "Foundation") under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Foundation elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Aga Khan Foundation U.S.A.** (the "Foundation"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

May 26, 2023

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8401 Greensboro Drive
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McLean, VA 22102

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited **Aga Khan Foundation U.S.A.'s** (the "Foundation") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal program for the year ended December 31, 2022. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

May 26, 2023

Aga Khan Foundation U.S.A.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:		Unmodified
Internal control over financial reporting:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over the major federal program:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Type of auditor's report issued on compliance for the major federal program:		Unmodified
Any audit findings disclosed that are required to to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	X No

Identification of the major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
98.001	U.S. AID Foreign Assistance For Programs Overseas

Dollar threshold used to distinguish between Type A and Type B programs:		$750,000
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards (GAGAS).

Section III - Federal Award Findings and Questioned Costs

There were no findings or questioned costs for Federal awards (as defined in 2 CFR 200.516(a)) that are required to be reported.