



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, 2019 and 2018

Aga Khan Foundation U.S.A.

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Years Ended December 31, 2019 and 2018

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, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

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

Other Matters

Other Information

Our audits were 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* (Uniform Guidance) 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. The 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 June 16, 2020 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

June 16, 2020

Financial Statements

Aga Khan Foundation U.S.A.

Statements of Financial Position

| December 31, | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 38,360,175 | \$ 102,472,036 |
| Notes receivable | 15,741,379 | 13,250,000 |
| Investments | 146,325,507 | 66,083,958 |
| Accounts receivable and other current assets | 939,247 | 165,590 |
| Donor agency receivables | 156,507 | 741,749 |
| Receivables from affiliates | 3,635,488 | 2,228,752 |
| Contributions receivable, net | 183,495,373 | 128,290,588 |
| Fixed assets, net | 105,558,273 | 89,280,231 |
| Total assets | \$ 494,211,949 | \$ 402,512,904 |
| Liabilities and net assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 4,585,244 | \$ 456,885 |
| Property tax accrual | 882,714 | 1,536,003 |
| Payables to affiliates | 94,660 | 749,370 |
| Deferred rent | 110,672 | 109,531 |
| Amounts held for others | 1,000,000 | 1,000,000 |
| Deferred revenue | 1,360,871 | 877,994 |
| Total liabilities | 8,034,161 | 4,729,783 |
| Net assets: | | |
| Without donor restrictions | 261,917,009 | 265,859,163 |
| With donor restrictions | 224,260,779 | 131,923,958 |
| Total net assets | 486,177,788 | 397,783,121 |
| Total liabilities and net assets | \$ 494,211,949 | \$ 402,512,904 |

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, 2019</i> | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| Revenues: | | | |
| Contributions | \$ 45,131,330 | \$ 121,384,658 | \$ 166,515,988 |
| Federal grants | 4,436,529 | - | 4,436,529 |
| Non federal grants and contracts | 525,026 | - | 525,026 |
| Investment return, net | 3,464,347 | - | 3,464,347 |
| Net assets released from restrictions | 29,047,837 | (29,047,837) | - |
| Total revenues | 82,605,069 | 92,336,821 | 174,941,890 |
| Expenses: | | | |
| Program services | | | |
| International programs | 77,412,095 | - | 77,412,095 |
| Community centers development program | 2,682,175 | - | 2,682,175 |
| Supporting services | | | |
| Management and general | 3,695,951 | - | 3,695,951 |
| Fundraising | 2,757,002 | - | 2,757,002 |
| Total expenses | 86,547,223 | - | 86,547,223 |
| Change in net assets | (3,942,154) | 92,336,821 | 88,394,667 |
| Net assets at beginning of year | 265,859,163 | 131,923,958 | 397,783,121 |
| Net assets at end of year | \$ 261,917,009 | \$ 224,260,779 | \$ 486,177,788 |

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

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

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

| <i>Year Ended December 31, 2019</i> | Program Services | | | Supporting Services | | | Total Expenses |
|-------------------------------------|------------------------|---------------------------------------|------------------------|------------------------|---------------------|---------------------------|----------------------|
| | International Programs | Community Centers Development Program | Total Program Services | Management and General | Fundraising | Total Supporting Services | |
| Direct program expenses | \$ 75,672,313 | \$ 1,186 | \$ 75,673,499 | \$ - | \$ - | \$ - | \$ 75,673,499 |
| Staffing costs | 1,212,767 | - | 1,212,767 | 743,449 | 1,282,962 | 2,026,411 | 3,239,178 |
| Legal, accounting and consulting | 227,363 | 5,734 | 233,097 | 237,226 | - | 237,226 | 470,323 |
| Travel | 53,362 | - | 53,362 | 134,655 | 40,145 | 174,800 | 228,162 |
| Doubtful pledges provision | - | - | - | 2,088,030 | - | 2,088,030 | 2,088,030 |
| General office | 19,307 | - | 19,307 | 429,821 | 105,251 | 535,072 | 554,379 |
| Occupancy | 133,963 | - | 133,963 | 59,875 | 163,397 | 223,272 | 357,235 |
| Communications | 93,020 | - | 93,020 | - | 99,612 | 99,612 | 192,632 |
| Event expenses | - | - | - | - | 487,062 | 487,062 | 487,062 |
| Merchandise | - | - | - | - | 131,079 | 131,079 | 131,079 |
| Technology | - | - | - | - | 45,900 | 45,900 | 45,900 |
| Licenses/processing fees | - | - | - | - | 63,279 | 63,279 | 63,279 |
| Site fees | - | - | - | - | 279,035 | 279,035 | 279,035 |
| Awards | - | - | - | - | 27,425 | 27,425 | 27,425 |
| Printing | - | - | - | - | 31,855 | 31,855 | 31,855 |
| Taxes and licenses (property) | - | 944,583 | 944,583 | 2,895 | - | 2,895 | 947,478 |
| Depreciation | - | 1,730,672 | 1,730,672 | - | - | - | 1,730,672 |
| | \$ 77,412,095 | \$ 2,682,175 | \$ 80,094,270 | \$ 3,695,951 | \$ 2,757,002 | \$ 6,452,953 | \$ 86,547,223 |

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

Aga Khan Foundation U.S.A.

Statement of Functional Expenses

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

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, | 2019 | 2018 |
|--|----------------------|-----------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 88,394,667 | \$ 44,153,560 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,730,672 | 1,357,015 |
| Donated fixed assets included in contribution revenue | (394,073) | (7,301,482) |
| Donated work of art included in direct program expenses | 450,000 | - |
| Stock contribution received | (5,023,612) | (1,716,016) |
| Proceeds from sale of stock contributions received | 4,974,772 | 1,697,578 |
| Realized losses on contributed stocks | 48,840 | 18,438 |
| Net realized and unrealized (gain) loss on investments | (196,417) | 708,507 |
| Change in cash surrender value of life insurance policies | (1,989,474) | (2,607,036) |
| Change in allowance for doubtful contributions | 2,088,030 | (143,781) |
| Present value component of discounts on contributions receivable | 3,831,365 | 1,417,792 |
| (Increase) decrease in assets: | | |
| Accounts receivable and other current assets | (773,657) | (33,004) |
| Donor agency receivables | 585,242 | 417,647 |
| Receivables from affiliates | (1,406,736) | 1,934,948 |
| Contributions receivable | (61,124,180) | 7,688,024 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | 3,430,220 | 69,072 |
| Property tax accrual | (653,289) | 1,536,003 |
| Payables to affiliates | (654,710) | (367,011) |
| Deferred rent | 1,141 | 9,456 |
| Deferred revenue | 482,877 | (970,923) |
| Net cash provided by operating activities | 33,801,678 | 47,868,787 |
| Cash flows from investing activities | | |
| Purchase of investments | (199,076,543) | (41,298,710) |
| Sales of investments | 121,020,885 | 19,985,606 |
| Notes receivable - payment received | 258,621 | - |
| Notes receivable - loans made | (2,750,000) | - |
| Fixed asset purchases | (17,366,502) | (1,833,407) |
| Net cash used in investing activities | (97,913,539) | (23,146,511) |
| Net (decrease) increase in cash and cash equivalents | (64,111,861) | 24,722,276 |
| Cash and cash equivalents, beginning of year | 102,472,036 | 77,749,760 |
| Cash and cash equivalents, end of year | \$ 38,360,175 | \$ 102,472,036 |

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

Aga Khan Foundation U.S.A.

Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts at federally insured institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per bank at December 31, 2019 and 2018. At December 31, 2019 and 2018, the Foundation held approximately \$37,386,000 and \$101,720,000, 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, notes receivable and contributions receivable was limited because these amounts are due from a large number of individual debtors and donors and/or major donors whom the Foundation maintains long-term relationships with.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

Investments

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

Fixed Assets

Fixed assets are carried at cost. The Foundation capitalizes assets with an original cost of \$5,000 or greater. Depreciation of furniture, fixtures and equipment is computed on the straight-line method over the estimated useful lives of five years. Buildings are depreciated over 20 years. The Foundation capitalizes 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 \$440,000 at December 31, 2019 and \$890,000 at December 31, 2018 and is included as fixed assets in the accompanying statements of financial position. During 2019, the Foundation donated historic photographs valued at \$450,000.

When assets are sold or otherwise disposed of, the assets and related accumulated depreciation is removed from the accounts, and any remaining gain or loss recognized currently. 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.

Deferred Rent

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

Classification of Net Assets

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

Without Donor Restrictions

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

Aga Khan Foundation U.S.A.

Notes to Financial Statements

With Donor Restrictions

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

Revenue Recognition

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

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

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

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

In-Kind Donations

Included in contributions revenue in the accompanying statements of activities are in-kind donations of \$394,073 and \$7,301,482 for fixed assets and goods provided at fundraising activities for the years ended December 31, 2019 and 2018, 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.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

Fair Value Measurements

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

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

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

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

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

Income Taxes

The Foundation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no tax liability for unrelated business income for the years ended December 31, 2019 and 2018.

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 2016.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

Use of Estimates

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

Functional Allocation of Expenses

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

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

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

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

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

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform with the current year financial statement presentation.

Recent Accounting Pronouncements Adopted

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 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. The adoption of this ASU did not have a material effect on the Foundation's financial statements as the Foundation's revenue results primarily from contributions under ASU 2018-08.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The ASU is effective for transactions in which the Foundation serves as the resource recipient to annual periods beginning after December 15, 2018 and is effective for transactions in which the Foundation serves as a resource provider for annual periods after December 15, 2019. The adoption of this ASU for the Foundation as a resource recipient did not have a material impact on the Foundation's financial statements. Management is currently evaluating the impact of this ASU for resource provider transactions on the Foundation's financial statements.

Recent Accounting Pronouncements to be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update, along with ASU 2018-10, *Codification Improvements to Topic 842: Leases*, ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors* and ASU 2019-01, *Leases (Topic 842): Codification Improvements* established a comprehensive leasing standard. These updates require the recognition of lease assets and lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use ("ROU") model that requires, for leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The guidance also expands the required quantitative and qualitative lease disclosures as well as provides entities with an additional (and optional) transition method to adopt the new standard. The ASU is effective for the Foundation's fiscal year 2021. Management is currently evaluating the impact of this ASU on the Foundation's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. The guidance is effective for the Foundation's fiscal year 2020, with early adoption permitted. Management is currently evaluating the impact of this ASU on the Foundation's financial statements.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

3. Liquidity and Availability Disclosure

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

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| Cash and cash equivalents | \$ 38,360,175 | \$ 102,472,036 |
| Investments | 146,325,507 | 66,083,958 |
| Accounts receivable and other current assets | 939,247 | 165,590 |
| Donor agency receivables | 156,507 | 741,749 |
| Receivables from affiliates | 3,635,488 | 2,228,752 |
| Contributions receivable, net | 183,495,373 | 128,290,588 |
| Total financial assets | 372,912,297 | 299,982,673 |
| Less: amounts unavailable for general expenditures within one year, due to: | | |
| Investment with liquidity horizons greater than one year | (30,208,125) | (28,281,573) |
| Net assets with donor restrictions | (224,260,779) | (131,923,958) |
| Amounts held for others | (1,000,000) | (1,000,000) |
| Total amounts unavailable for general expenditures within one year | (255,468,904) | (161,205,531) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 117,443,393 | \$ 138,777,142 |

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 starting from October 2019. Interest payments are to be 1% per annum at a fixed rate. During the year ended December 31, 2019, the Foundation issued an additional amount of \$2,750,000 under this loan. The outstanding balance as of December 31, 2019 and 2018 is \$7,241,379 and \$4,750,000, 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. Interest payments are to be 1% per annum at a fixed rate. Interest only payments are to be paid through October 2022 and the first principal payment due on

Aga Khan Foundation U.S.A.

Notes to Financial Statements

April 1, 2023. The outstanding balance as of December 31, 2019 and 2018 is \$7,500,000 and \$7,500,000, respectively.

The Foundation issued a note (loan) of \$1,000,000 to First Microfinance Bank of Tajikistan for providing access to financing 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 1.76% per annum at a fixed rate. The outstanding balance as of December 31, 2019 and 2018 is \$1,000,000 and \$1,000,000, respectively.

5. Investments

The following table sets forth those financial assets that are recorded at fair value on a recurring basis according to the hierarchy described in ASC 820, as of December 31, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|-------------|-----------------------|---------------------|-----------------------|
| Certificates of deposit | \$ - | \$ 9,555,569 | \$ - | \$ 9,555,569 |
| Corporate bonds | - | 42,841,046 | - | 42,841,046 |
| International bonds | - | 20,824,350 | - | 20,824,350 |
| Mortgage and asset backed securities | - | 20,457,458 | - | 20,457,458 |
| Government Agency Bonds | - | 13,136,953 | - | 13,136,953 |
| Life insurance policies | - | 27,062,510 | - | 27,062,510 |
| Investment in FMFB | - | - | 3,145,615 | 3,145,615 |
| Total | \$ - | \$ 133,877,886 | \$ 3,145,615 | \$ 137,023,501 |

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

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

Aga Khan Foundation U.S.A.

Notes to Financial Statements

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

In September 2012, the Foundation entered into a shareholder agreement with First Microfinance Bank of Afghanistan ("FMFB"). The Foundation made an initial investment of \$2,499,952 to acquire an equity ownership of 11.8% representing 10,504 shares. The investment is adjusted annually for the Foundation's proportionate share of the bank's earnings or losses. The Foundation recorded an unrealized loss of \$62,923 and \$214,350 for the years ended December 31, 2019 and December 31, 2018, respectively. The Foundation's estimated fair value for these investments is based on Level 3 inputs.

Certificates of deposit totaling \$564,674 at December 31, 2018, are not included in the table above because they are recorded at cost plus accrued interest. Cash totaling \$9,302,006 and \$967,128 at December 31, 2019 and 2018, respectively, is not included in the above 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, 2019 and 2018, respectively:

| | 2019 | 2018 |
|-----------------------------------|----------------|---------------|
| Investments per fair value table | \$ 137,023,501 | \$ 64,552,156 |
| Certificates of deposit - at cost | - | 564,674 |
| Cash | 9,302,006 | 967,128 |
| Ending balance | \$ 146,325,507 | \$ 66,083,958 |

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, 2019 and 2018, respectively:

| | 2019 | 2018 |
|--|--------------|--------------|
| Beginning balance | \$ 3,208,538 | \$ 3,422,888 |
| Purchases and additions | - | - |
| Sales, issuances, distributions, and settlements | - | - |
| Realized and unrealized loss relating to instruments still held at the statements of financial position date | (62,923) | (214,350) |
| Net transfers in and out of Level 3 | - | - |
| Ending balance | \$ 3,145,615 | \$ 3,208,538 |

Aga Khan Foundation U.S.A.

Notes to Financial Statements

The following table summarizes the significant unobservable inputs the Foundation used to value its investments categorized within Level 3 as of December 31, 2019. 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, 2019 | Valuation Technique | Significant Unobservable Inputs | Range (Weighted Average) |
|------------------------------|---------------------------------------|-------------------------|---------------------------------------|--|
| Equity investment in FMFB | \$ 3,145,615 | Discounted Cash Flow | Percentage ownership of net assets | 11.8% of the total stocks of the bank |

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

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

There were no changes in valuation techniques noted for investments for 2019 and 2018.

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

6. Contributions Receivable

Contributions receivable as of December 31, 2019 and 2018, were due as follows:

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Amounts due in: | | |
| Less than one year | \$ 68,963,418 | \$ 37,486,913 |
| One to five years | 145,622,654 | 115,974,979 |
| Total contributions receivable | 214,586,072 | 153,461,892 |
| Less: Present value component of discounts | (7,618,713) | (3,787,348) |
| Allowance for doubtful contributions | (23,471,986) | (21,383,956) |
| Total contributions receivable, net | \$ 183,495,373 | \$ 128,290,588 |

7. Fixed Assets

Fixed assets as of December 31, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|---|-----------------------|----------------------|
| Property held for charitable purposes: | | |
| Land | \$ 71,430,868 | \$ 63,938,910 |
| Buildings | 45,987,017 | 45,683,017 |
| Donated assets (historic books and photographs) | 440,067 | 890,067 |
| Construction in progress | 12,106,208 | 1,443,452 |
| Total fixed assets | 129,964,160 | 111,955,446 |
| Less accumulated depreciation | (24,405,887) | (22,675,215) |
| Total net fixed assets | \$ 105,558,273 | \$ 89,280,231 |

Depreciation expense totaled \$1,730,672 and \$1,357,015 for the years ended December 31, 2019 and 2018, respectively.

8. Commitments and Contingencies

Leases

The Foundation has a lease for office space under a non-cancelable operating lease that will expire on May 1, 2023. The lease contains escalation provisions for increases in operating expenses and real estate taxes. During 2019 and 2018, rent expense related to this lease was \$348,821 and \$348,553, respectively.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

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

Year Ending December 31,

| | | |
|------|----|-----------|
| 2020 | \$ | 350,358 |
| 2021 | | 359,115 |
| 2022 | | 402,234 |
| 2023 | | 170,718 |
| | \$ | 1,282,425 |

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 \$18 million and \$13 million at December 31, 2019 and 2018, respectively.

Regulatory

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

9. Related-Party Transactions

The Foundation is related to the Aga Khan Foundation established in Geneva, Switzerland, and has received contributions from this organization in the amounts of \$1,346,000 and \$207,000 in 2019 and 2018, 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, 2019, and 2018, the amounts payable to affiliates for programs approved by the Board of Directors, were \$94,660 and \$749,370, respectively. As of December 31, 2019, and 2018, amounts receivable for program advances to affiliates were \$3,635,488 and \$2,228,752, respectively.

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

The Foundation has outstanding notes (loans) due from various agencies of AKDN (see Note 4). Total outstanding balance of these notes as of December 31, 2019 and 2018 is \$15,741,379 and \$13,250,000, respectively.

Aga Khan Foundation U.S.A.

Notes to Financial Statements

10. Retirement Plan

The Foundation has a defined contribution retirement plan. All employees who meet the eligibility requirements can participate in the plan. Under the plan, the Foundation makes contributions based on a percentage of the payroll of those employees who participate in the plan. Costs incurred under the plan were \$161,484 and \$177,549 for the years ended December 31, 2019 and 2018, respectively.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Contributions due in future periods for general operations | \$ 102,902,802 | \$ 131,923,958 |
| Contributions purpose restricted for other projects | 145,000 | - |
| Contributions restricted for Ismaili Center Houston | 121,212,977 | - |
| | \$ 224,260,779 | \$ 131,923,958 |

For the year ended December 31, 2019, the Foundation released funds of \$29,047,837 due to the time restriction being fulfilled. For the year ended December 31, 2018, the Foundation released funds of \$28,948,125 due to the time restriction being fulfilled and \$1,501,289 for the purpose restriction being fulfilled.

12. Subsequent Events

The Foundation evaluated subsequent events through June 16, 2020 which is the date the financial statements were available to be issued. No additional subsequent events were noted that required adjustments to or disclosure in the financial statements, other than those noted below.

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. As of the date of issuance of these financial statements, this public health emergency has had a substantial negative impact on the global economy and has resulted in significant volatility in the financial markets. The Foundation cannot reasonably estimate the length or severity of this pandemic or its impact on the economy or the financial markets. Management is continually monitoring the impact of the pandemic on its operations and on the value of its investment portfolio. As of the date of this report the Foundation has not suffered material negative impact on its operations and investments. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundation is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to

Aga Khan Foundation U.S.A.

Notes to Financial Statements

promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. The Foundation is eligible for the SBA Paycheck Protection Program and other benefits under the CARES Act, however, the Foundation has decided not to utilize these benefits. The Foundation continues to examine the impact that the CARES Act may have on its operations. Currently, the Foundation is unable to determine the impact that the CARES Act will have on its financial condition, results of operations, or liquidity.

**Schedule of Expenditures
of Federal Awards**

Aga Khan Foundation U.S.A

Schedule of Expenditures of Federal Awards

Year ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Award Number | Pass-through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|--|------------------------|-----------------------|--|------------------------------------|-------------------------------|
| U.S. Agency for International Development (USAID) | | | | | |
| USAID Direct Awards: | | | | | |
| Economic and Social Connections: A Multi-Input Area | | | | | |
| Development Financing Facility for Tajikistan | 98.001 | AID-176-A-14-0009-00 | N/A | \$ 186,954 | \$ 1,860,516 |
| The YETU Initiative | 98.001 | AID-615-A-14-00002 | N/A | - | 437,725 |
| Central Asia - Accelerate Prosperity (CA-AP) | 98.001 | 7200AA18FA00058 | N/A | 105,037 | 166,992 |
| THRIVE Tajikistan | 98.001 | 72011518CA0004 | N/A | 151,183 | 898,042 |
| Global Alliance for Community Philanthropy | 98.001 | AID-OAA-A-14-00077 | N/A | 40,213 | 40,213 |
| Emergency Response Readiness and Preparedness - Afghanistan | 98.001 | 720FDA18GR00277 | N/A | 942,648 | 980,529 |
| Telemedicine in Cote D' Ivoire | 98.001 | AID-624-A-16-00007 | N/A | 15,546 | 399,235 |
| Local Impact: A Transformative New Partnership in Africa and Asia | 98.001 | 7200AA19LE00002 | N/A | - | 10,946 |
| Total USAID Direct Awards: | | | | 1,441,581 | 4,794,198 |
| USAID Pass-Through Awards: | | | | | |
| Afghan Civil Engagement Program | 98.001 | N/A | AID-306-A-14-0000-1 | 363,272 | 483,204 |
| Large-Scale Diffusion of Technologies for Sorghum and Millet Systems in Mali (DT_SMS) | 98.001 | N/A | MT069018 | - | 11,245 |
| Scaling-up Climate-Smart Agroforestry Technologies for Improved Market Access, Food and Nutritional Security (SmAT-Scaling) | 98.001 | N/A | MT069018 | - | 147,882 |
| Total USAID Pass-Through Awards: | | | | 363,272 | 642,331 |
| Total U.S. Agency for International Development | | | | 1,804,853 | 5,436,529 |
| Total Expenditures of Federal Awards | | | | \$ 1,804,853 | \$ 5,436,529 |

See accompanying notes to Schedule of Expenditures of Federal Awards.

Aga Khan Foundation U.S.A.

Notes to the Schedule of Expenditures of Federal Awards Year Ended December 31, 2019

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, 2019. 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. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

The reimbursement of indirect costs reflected in the accompanying financial statements as federal revenue is subject to final approval by federal grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment will not be material to the Foundation’s financial position or change in net assets.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in the Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, or 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*

To the 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, 2019, 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 June 16, 2020.

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) to determine the 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 may exist that have not been identified.



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 determination of financial statement amounts. 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

June 16, 2020



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

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

Report on Compliance for the Major Federal Program

We have audited **Aga Khan Foundation U.S.A.'s** (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended December 31, 2019. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.



Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

June 16, 2020

Aga Khan Foundation U.S.A.

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

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 No
- Significant deficiency(ies) identified? _____ Yes None reported
- Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes No
- Significant deficiency(ies) identified? _____ Yes None reported

Type of auditor's report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes No

Identification of major federal program:

CFDA/Contract Number

98.001

Name of Federal Program or Cluster

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?

Yes _____ No

Aga Khan Foundation U.S.A.

Schedule of Findings and Questioned Costs Year Ended December 31, 2019

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.

Management Prepared Document



Status of Prior Year Finding

Year Ended December 31, 2019

Individual Responsible for Corrective Action Plan

Nazlin Pepermintwala
Associate Director of Finance
(202) 293-2537

Questioned Program – CFDA Number 98.001 Foreign Assistance for Program Overseas

2018-001 – Period of Performance

Prior Year Finding:

The Foundation incurred the expenditure of purchasing a laptop before the period of performance in anticipation of the of federal program inception workshop.

Questioned Cost: USD 1,203.

Current Year Status:

Finding was resolved.

An agency of the Aga Khan Development Network

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