

**Audited Financial Statements
and
Reports Required by Government Auditing
Standards and the Uniform Guidance**

AIDS United

December 31, 2016

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Independent Auditor’s Report

To the Board of Trustees
AIDS United

Report on the Financial Statements

We have audited the accompanying financial statements of AIDS United (AU), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows, and functional expense 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 audits 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 AU’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 AU’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 AIDS United as of December 31, 2016 and 2015, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

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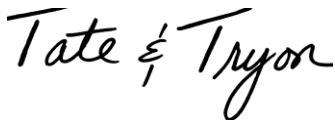
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Other Matters

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 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. 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 26, 2017 on our consideration of the AU'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 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 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 AU's internal control over financial reporting and compliance.



Washington, DC
June 26, 2017

Statements of Financial Position

December 31,	2016	2015
Assets		
Cash and cash equivalents	\$ 5,945,139	\$ 6,705,131
Investments	2,095,072	1,941,361
Pledge receivable	785,970	729,740
Accounts receivable	192,102	384,621
Government grants receivable	134,352	486,270
Prepaid expenses and other assets	157,682	93,130
Property and equipment, net	33,927	56,831
Total assets	\$ 9,344,244	\$ 10,397,084
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 155,845	\$ 115,480
Other liabilities and deposits	73,307	59,636
Deferred revenue	50,953	21,879
Grants payable	627,500	376,864
Total liabilities	907,605	573,859
Net assets		
Undesignated	1,303,942	916,384
Board designated	13,333	12,762
Unrestricted	1,317,275	929,146
Temporarily restricted	5,703,512	7,483,808
Permanently restricted	1,415,852	1,410,271
Total net assets	8,436,639	9,823,225
Total liabilities and net assets	\$ 9,344,244	\$ 10,397,084

AIDS United

Statements of Activities

For the Year Ended December 31, 2016 (With Summary Total for 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenue and support					
Grants and contributions	\$ 527,063	\$ 3,878,119	\$ 5,581	\$ 4,410,763	\$ 7,468,006
Federal grants	4,053,976			4,053,976	3,699,126
Program service revenue and dues	410,600			410,600	342,600
Other income	102,821	25,000		127,821	98,785
Net assets released from restriction	5,880,835	(5,880,835)		-	-
Total revenue and support	10,975,295	(1,977,716)	5,581	9,003,160	11,608,517
Expenses					
Program services	10,470,424			10,470,424	12,061,453
General and Administrative	703,763			703,763	580,950
Fundraising	168,895			168,895	170,738
Allocated expenses	(718,572)			(718,572)	(749,935)
Total expenses	10,624,510	-	-	10,624,510	12,063,206
Change in net assets from operations	350,785	(1,977,716)	5,581	(1,621,350)	(454,689)
Non-operating activity					
Interest and dividend income	36,334	34,370		70,704	74,749
Net realized and unrealized gain (loss) on investments	1,010	163,050		164,060	(6,804)
Change in net assets	388,129	(1,780,296)	5,581	(1,386,586)	(386,744)
Net assets, beginning of year	929,146	7,483,808	1,410,271	9,823,225	10,209,969
Net assets, end of year	\$ 1,317,275	\$ 5,703,512	\$ 1,415,852	\$ 8,436,639	\$ 9,823,225

See notes to the financial statements.

Statements of Cash Flows

<i>Year Ended December 31,</i>	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (1,386,586)	\$ (386,744)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	22,904	21,364
Net realized and unrealized (gain) loss on investments	(164,060)	6,804
Change in assets and liabilities:		
Pledge receivable	(56,230)	(48,507)
Accounts receivable	192,519	(340,287)
Government grants receivable	351,918	(284,749)
Prepaid expenses and other assets	(64,552)	(34,218)
Accounts payable and accrued expenses	40,365	(110,297)
Other liabilities and deposits	13,671	54,044
Deferred revenue	29,074	11,316
Grants payable	250,636	(543,680)
Total adjustments	616,245	(1,268,210)
Net cash used in operating activities	(770,341)	(1,654,954)
Cash flows from investing activities		
Purchases of investments	(40,423)	(14,274,404)
Proceeds from sales of investments	50,772	19,978,155
Purchases of property and equipment	-	(20,250)
Net cash provided by investing activities	10,349	5,683,501
Net (decrease) increase in cash and cash equivalents	(759,992)	4,028,547
Cash and cash equivalents, beginning of year	6,705,131	2,676,584
Cash and cash equivalents, end of year	\$ 5,945,139	\$ 6,705,131

Statement of Functional Expense
Year Ended December 31, 2016 with 2015 Totals

	Program Services							Sector Transformation
	Program Management	Puerto Rico Fund	Southern REACH	SIF Match	SIF Federal	Positive Organizing	Retention in Care	
Grants	\$ -	\$ 24,000	\$ 1,440,000	\$ (31,967)	\$ 784,176	\$ 300,000	\$ -	\$ 479,500
Salaries and benefits	1,425	35,925	99,254	228,002	47,693	72,853	72,896	280,919
Outside services	23	64,415	74,154	38,299	145,687	48,604	48,292	218,575
Travel, lodging and meals	4,799	26,567	113,094	18,378	4,538	15,205	1,928	75,893
Office expenses	110	38	4,512	205	143	4	136	4,084
Other expenses	1,719	1,250	15,865	100	-	-	1,577	-
Printing	-	51	456	-	-	98	-	895
Telephone	580	494	1,274	1,669	837	1,088	1,082	2,966
Supplies	230	503	998	250	280	-	34	3,463
Postage	19	229	816	588	174	439	96	796
Conferences and meetings	800	3,722	5,843	-	-	895	-	2,280
Promotion	-	-	300	-	-	403	-	1,350
Allocated expenses	61	15,431	141,487	28,560	23,115	-	10,083	116,357
Total Expenses	\$ 9,766	\$ 172,625	\$ 1,898,053	\$ 284,084	\$ 1,006,643	\$ 439,589	\$ 136,124	\$ 1,187,078

Statement of Functional Expense (Continued)
Year Ended December 31, 2016 with 2015 Totals

	Program Services							
	<u>AmeriCorps Match</u>	<u>AmeriCorps Federal</u>	<u>Syringe Access Program</u>	<u>CDC M2M</u>	<u>CDC CBA</u>	<u>HRSA Fenway</u>	<u>HRSA ITAC</u>	<u>Public Policy</u>
Grants	\$ -	\$ -	\$ 600,000	\$ -	\$ -	\$ -	\$ 818,377	\$ -
Salaries and benefits	287,269	312,705	23,667	68,270	328,761	33,759	326,243	493,003
Outside services	32,742	4,113	4,076	52,896	409,914	338	240,733	65,210
Travel, lodging and meals	17,077	63	972	5,086	76,611	405	81,750	162,410
Office expenses	130	131	13	66	4,349	29	4,241	1,729
Other expenses	17,550	-	-	-	90	-	-	25,490
Printing	-	-	110	-	1,231	-	1,858	6,346
Telephone	724	464	319	743	5,247	390	4,646	8,146
Supplies	6,296	148	7	14	3,066	-	2,959	5,875
Postage	147	76	1,140	182	1,380	75	645	189
Conferences and meetings	-	-	-	-	7,063	-	9,747	21,249
Promotion	-	-	-	-	3,983	-	152	1,383
Allocated expenses	37,212	33,331	60,854	13,186	64,090	3,627	120,102	34,610
Total Expenses	\$ 399,147	\$ 351,031	\$ 691,158	\$ 140,443	\$ 905,785	\$ 38,623	\$ 1,611,453	\$ 825,640

Statement of Functional Expense (Continued)
Year Ended December 31, 2016 with 2015 Totals

	Program Services			Supporting Services			2016 Totals	2015 Totals
	Communications	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Grants	\$ -	\$ 99,185	\$ 4,513,271	\$ -	\$ -	\$ -	\$ 4,513,271	\$ 6,145,961
Salaries and benefits	29,428	36,020	2,778,092	193,349	144,890	338,239	3,116,331	3,258,917
Outside services	23,847	162,017	1,633,935	127,377	7,505	134,882	1,768,817	1,563,662
Travel, lodging and meals	16	2,205	606,997	48,980	4,855	53,835	660,832	538,053
Office expenses	571	-	20,491	264,404	152	264,556	285,047	268,606
Other expenses	-	1,000	64,641	41,719	9,808	51,527	116,168	91,931
Printing	-	-	11,045	1,615	-	1,615	12,660	24,648
Telephone	322	59	31,050	14,085	938	15,023	46,073	42,695
Supplies	117	954	25,194	5,786	144	5,930	31,124	76,490
Postage	275	-	7,266	997	589	1,586	8,852	13,467
Conferences and meetings	-	-	51,599	5,352	-	5,352	56,951	29,807
Promotion	200	500	8,271	99	14	113	8,384	8,969
Allocated expenses	-	16,466	718,572	(718,572)	-	(718,572)	-	-
Total Expenses	\$ 54,776	\$ 318,406	\$ 10,470,424	\$ (14,809)	\$ 168,895	\$ 154,086	\$ 10,624,510	\$ 12,063,206

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: AIDS United (AU) is a 501(c)(3) organization headquartered in Washington, DC. The organization's mission is to end the AIDS epidemic in the U.S. and it works to achieve its mission through strategic grant-making, technical assistance and capacity building, as well as advocacy and policy. Originally incorporated in August 1990 under the laws of Ohio as the National Community AIDS Partnership (NCAP), the organization changed its name to the National AIDS Fund in January 1996 to reflect the merger of NCAP with National Leadership Coalition on AIDS.

In January 2011, National AIDS Fund (NAF) changed its name to AIDS United to reflect the acquisition of AIDS Action Foundation (AAF), a 501(c)(3) organization, and AIDS Action Council (AAC), a 501(c)(4) organization, both incorporated in the District of Columbia. The transaction was effective January 1, 2011 through a one-time gift of net assets to NAF from AAF and AAC. AAF and AAC provided public policy and advocacy support to organizations actively engaged in HIV/AIDS work and the acquisition by NAF is considered complementary and synergistic with AU's mission of ending the HIV/AIDS epidemic.

AU works in partnership with both the public and private sectors to raise and distribute grant funds and provide technical assistance and training resources to strengthen the response to the HIV/AIDS epidemic throughout the United States. AU also works through a dues-paying base of participating organizations to help shape policy and ensure advocacy for an effective HIV/AIDS response at both national and local levels. AU's programs are supported primarily through government, corporate, and foundation grants and contributions.

Income taxes: AU is exempt from the payment of income taxes on its exempt activities under section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

Basis of accounting: AU prepares its financial statements on the accrual basis of accounting. Revenues, other than contributions, are recognized when earned and expenses are recognized when the obligations are incurred.

Use of estimates: Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents: AU considers all highly liquid short-term debt instruments whose maturity dates do not extend past three months from the original date of purchase, including certificates of deposit, to be cash equivalents.

Accounts receivable: Accounts receivable consists primarily of amounts owed for program service revenue. Accounts receivable are presented at the gross, or face, amount due to AU. Management periodically reviews the status of all receivable balances for collectability. As a result of these reviews, balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debt had been recorded.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pledge receivable: Pledge receivable is recognized as revenue in the period the unconditional promise to give is received. The management of AU reviews the collectability of the pledge receivable on a regular basis. No reserve for doubtful accounts has been established because management expects to collect all contributions and grants in full. As of December 31, 2016 and 2015, pledge receivable balances are expected to be collected within a year.

Fixed assets: Furniture and equipment are stated at cost for purchased items and fair value at the date of donation for contributed items. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Expenditures for repairs and maintenance and minor renewals are charged to expense when incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expenses. Depreciation for the years ended December 31, 2016 and 2015 was \$22,904 and \$21,364, respectively.

Deferred revenue: Deferred revenue primarily consists of registrations received in advance of the 2017 AIDS Watch advocacy event.

Net assets: For financial statement purposes, net assets are classified as follows:

Unrestricted – represents the funds that are available for AU's general operations.

Temporarily restricted – represents the portion of net assets that have been restricted by donors for either specified purposes or timing of use (see Note D).

Permanently restricted – represents the portion of net assets that have been restricted by donors who require the principal of the gift to be maintained in perpetuity by AU and only the earnings to be used for a specified purpose (see Notes E and F).

Revenue recognition: AU records contributions as unrestricted, temporarily or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions, whose restrictions are met within the same period as the contributions are received, are recorded as unrestricted contributions.

Grants are recognized as revenue in accordance with their terms. Funds related to specific projects are deferred until the funds are utilized or the revenue has been earned.

Functional allocation of expenses: The costs of providing various programs and other activities of AU have been summarized on a functional basis in the accompanying financial statements. Costs that can be identified with a particular program or support function are charged directly to that program or function. Salaries and related costs have been allocated among the programs and supporting services based upon timesheets prepared by the employees and management's best estimates of the proportion of these costs applicable to each program. Additionally, other costs indirectly related to the programs or support services have been allocated among the programs and support services benefited based on total direct expenditures.

Subsequent events: Subsequent events have been evaluated through June 26, 2017, which is the date the financial statements were available to be issued.

Notes to the Financial Statements

B. CONCENTRATIONS

Credit risk: AU maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to AU.

Market value risk: AU also invests in professionally managed mutual funds. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the financial statements.

Major grantors: During the year ended December 31, 2016 AU earned approximately 18% of its revenue from one grantor, and approximately 21% from another grantor for a total of approximately 39% of its revenue. During the year ended December 31, 2015, AU earned approximately 22% of its revenue from one grantor, and approximately 17% from another grantor for a total of approximately 39% of its revenue. If a substantial reduction in the level of this funding should occur, it might have a significant effect on AU's programs.

C. INVESTMENTS

In accordance with generally accepted accounting principles, AU uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value are classified as Level 1 investments. This includes equities mutual funds in which the fair values were based on quoted prices for identical assets in active markets.

AU's investments consisted of equities mutual funds totaling \$2,095,072 and \$1,941,361 as of December 31, 2016 and 2015, respectively.

Notes to the Financial Statements

D. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are dedicated to the following programs at December 31,:

	2016	2015
AmeriCorps (non-federal)	\$ -	\$ 409,199
Connecting to Care Initiative	50,000	-
David E. Rogers Innovation Fund	601,698	513,797
Grants Program and Fund for Puerto Rico	195,063	167,688
ICW - FS	-	49,875
Positive Organizing Project	133,965	73,554
Public Policy	110,765	495,283
Retention in Care	-	136,124
Robert Woods Johnson Foundation Award	1,484	-
Sean Sasser Memorial Fund	7,685	4,631
Sector Transformation	1,238,722	1,846,800
Social Innovation Fund - Match	400,442	684,524
Southern REACH	1,845,651	1,843,703
Syringe Access Fund	513,297	1,003,496
Transgender Leadership Demonstration Project	300,000	-
Treatment Access Expansion Project	304,740	249,553
USCA DC Host Committee	-	5,581
	<u> </u>	<u> </u>
Total	\$ 5,703,512	\$ 7,483,808

E. PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets are dedicated to the following endowment funds as of December 31,:

	2016	2015
David E. Rogers Innovation Fund	\$ 1,359,252	\$ 1,359,252
Sean Sasser Memorial Fund	56,600	51,019
	<u> </u>	<u> </u>
	\$ 1,415,852	\$ 1,410,271

During the year ended December 31, 2013, AU received permanently restricted endowment funds in the amount of \$44,590 from contributions made in memory of Sean Sasser that were required to be maintained in accordance with the Sean Sasser Memorial Fund Agreement. Under the terms of the agreement, AU is required to hold, manage, invest and reinvest the initial fund assets and earnings accumulated until the value of the Sasser Fund reaches \$1,500,000 or two years from the Fund establishment date of August 15, 2013, whichever comes first.

E. PERMANENTLY RESTRICTED NET ASSETS - CONTINUED

After the value of the Sean Sasser Fund reaches \$1,500,000 or two years from the Fund establishment date of August 15, 2013, AU shall collect and disburse the income, including interest, dividends and capital appreciation thereof in accordance with AU's policy for endowment funds. Funds will be disbursed to support the mission of AU for charitable purposes, specifically programs that improve the health outcomes for gay men of color, with an emphasis on black gay men.

During the year ended December 31, 2007, AU received permanently restricted endowment funds in the amount of \$1,359,252 from the New York Academy of Medicine that are required to be maintained in accordance with the Dr. David E. Rogers Innovation Fund Agreement. Under the terms of the agreement, AU is required to hold, manage, invest and reinvest the initial fund assets and earnings accumulated in a separate account until the value of the Innovation Fund reaches \$1,500,000.

After the value of the Dr. David E. Rogers Innovation Fund reaches \$1,500,000, AU shall collect and disburse the income, including interest, dividends and capital appreciation thereof, in accordance with AU's policy for endowment funds to support the charitable mission of AU. The value of this Fund exceeded \$1,500,000 at December 31, 2010, and income was disbursed annually beginning in 2011 pursuant to AU's spending policy for endowment funds.

F. ENDOWMENT

During the year ended December 31, 2008, AU received gifts in memory of John Taylor in the amount of \$10,300, including a founding gift of \$10,000 from the Principal Financial Group. The funds received were designated by AU's Board of Trustees as funds for endowed purposes and maintained in accordance with the John Taylor Memorial Fund Agreement. Under the terms of the agreement, AU will hold, manage, invest and reinvest the endowment fund assets as an endowed component fund and returns are to be accumulated until the value of the John Taylor Memorial Fund reaches \$10,500.

After the value of the John Taylor Memorial Fund reaches \$10,500, AU shall collect and disburse the income, including interest, dividends and capital appreciation thereof in accordance with AU's policy for endowment funds to support the charitable mission of AU. The value of this Fund exceeded \$10,500 in 2010, and income was disbursed annually beginning in 2011 pursuant to AU's spending policy for endowment funds.

AU's endowments consist of three individual funds established to provide grants under terms of the grant agreements. The endowments include two donor-restricted endowment funds and a fund designated by the Board of Trustees to function as an endowment. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

F. ENDOWMENT - CONTINUED*Interpretation of Relevant Law*

The Board of Trustees of AU has interpreted the State Prudent Management of Institutional Fund Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, AU classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Endowment Spending Policy

Each endowment fund at AU is fully invested in accordance with AU's investment policy guidelines and the investment models recommended by the donor who established the fund. When subsequent contributions are received into a fund, they are invested immediately. New donations contribute to the fund's total market value regardless of the fund's size. The amount available each year for grant making out of a permanent/endowment fund can be paid out as grants or reinvested in the fund, depending upon the type of fund.

Endowment Spending Policy (continued)

A fund's distribution amount is determined annually by using two factors: the Spending Policy Rate (SPR) and the Blended Market Value (BMV). The Spending Policy Rates (SPR's) are established and reviewed regularly by AU's Investment Advisory Committee. SPR's are set at levels that enable distributions to grow over time, and also to hedge against the eroding effects of inflation. Currently, annual rates are set at 5% and do not include annual management and administration fees (which vary by fund type).

After January 1 of each year, AU multiplies the fund's Blended Market Value by the appropriate Spending Policy Rate. The resulting figure becomes the available distribution amount for the current year. For example, 5% net SPR x \$10,000 BMV = \$500 distribution amount. Conceptually, Blended Market Value (BMV) is a three-year trailing average of a fund's market value. AU's calculations serve to level market fluctuations and maintain relatively smooth distribution amounts.

Notes to the Financial Statements

F. ENDOWMENT – CONTINUED

An administration fee applies to all funds at AU and is based on the type of fund. The fee is used to offset operating and administrative expenses. An investment management fee applies to all invested funds at AIDS United. This fee is used to offset AU's investment management expense.

If a fund has not achieved its minimum required contributions amount (typically \$10,000 within five years), the annual distribution amount will be reinvested automatically. By policy, all fund distributions and fees will be waived until the market value of the endowment fund exceeds 105% of the cumulative historical gift balance of the fund.

Endowment Investment Policy

AU has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets. AU invests endowment funds with a very long-term view, using a disciplined and fully diverse investment strategy. AU seeks to match the overall growth in the stock market using cost effective Vanguard index funds, with performance measured using overall market benchmarks, rather than aggressively trying to outperform the market each year. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. AU expects its endowment funds, over time, to provide an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount.

Endowment Net Asset Composition by Type of Fund as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
Donor-restricted endowment funds:				
Dr. David E. Rogers Innovation Fund	\$ -	\$ 601,698	\$ 1,359,252	\$ 1,960,950
Sean Sasser Memorial Fund	-	7,685	56,600	64,285
Board-designated funds:				
John Taylor Memorial Fund	13,333	-	-	13,333
Total Funds	\$ 13,333	\$ 609,383	\$ 1,415,852	\$ 2,038,568

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Donor-restricted endowment funds:				
Dr. David E. Rogers Innovation Fund	\$ -	\$ 513,797	\$ 1,359,252	\$ 1,873,049
Sean Sasser Memorial Fund	-	4,631	51,019	55,650
Board-designated funds:				
John Taylor Memorial Fund	12,762	-	-	12,762
Total Funds	\$ 12,762	\$ 518,428	\$ 1,410,271	\$ 1,941,461

Notes to the Financial Statements

F. ENDOWMENT - CONTINUED

Changes in Endowment Net Assets for the Years Ended December 31, 2015 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at				
December 31, 2014	\$ 13,572	\$ 617,350	\$ 1,406,970	\$ 2,037,892
Contributions	-	-	3,301	3,301
Investment return:				
Investment loss	(79)	(84)	-	(163)
Net depreciation	(731)	-	-	(731)
Appropriation of endowment assets for expenditure	-	(98,838)	-	(98,838)
Endowment net assets at December 31, 2015	<u>12,762</u>	<u>518,428</u>	<u>1,410,271</u>	<u>1,941,461</u>
Contributions	-	-	5,581	5,581
Investment return:				
Investment income	1,332	197,419	-	198,751
Net depreciation	(761)	-	-	(761)
Appropriation of endowment assets for expenditure	-	(106,464)	-	(106,464)
Endowment net assets at December 31, 2016	<u>\$ 13,333</u>	<u>\$ 609,383</u>	<u>\$ 1,415,852</u>	<u>\$ 2,038,568</u>

G. RETIREMENT PLAN

AU sponsors a 403(b) defined contribution pension plan that covers all full-time employees who have completed one year of service and 1,000 hours during the plan year. The Board determines employer contributions annually. The Board approved contributions of 6% of each participant's salary for 2016 and 2015. Employees are fully vested in the employer contributions. For the years ended December 31, 2016 and 2015, pension expense was \$85,787 and \$77,763, respectively, and is included in salaries and benefits on the statements of functional expense.

H. AIDS UNITED AMERICORPS PROGRAM

AU managed the first and longest running HIV-specific, national direct AmeriCorps program in the United States. This program is supported by a federal grant from the Corporation for National and Community Service (CNCS) as well as matching funds that are provided by numerous private corporations and foundations.

Notes to the Financial Statements

H. AIDS UNITED AMERICORPS PROGRAM - CONTINUED

In October 2012, AU began a new AmeriCorps program year consisting of 54 AmeriCorps Members serving in seven AU Partnership Communities (Cleveland, OH; Chicago, IL; Detroit, MI; Washington, DC; Indianapolis, IN; Albuquerque/Santa Fe, NM; New Orleans, LA) with AmeriCorps Member Service starting in August 2013. Each member provides at least 1,700 hours of direct HIV prevention and care services working with an HIV/AIDS organization in their host community. In return for full time services, each member receives a living allowance, health benefits, childcare and, upon completion, a federally supported education award. For the years ended December 31, 2016 and 2015, AmeriCorps member living allowances of \$418,041 and \$773,195, respectively, and related benefits expense of \$66,343 and \$124,628, respectively, are included in salaries and benefits in the statements of functional expense.

AmeriCorps operating sites and host agencies make significant in-kind contributions including supervision, local travel reimbursement, operational and administrative support and on-site training to the AmeriCorps members. Although this amount is very important to the program and is reported to the CNCS, it is not included in income and expense in the statement of activities as it does not qualify as donated support under generally accepted accounting principles. Beginning with the start of the AmeriCorps Member Service in August 2013, CNCS AmeriCorps grant funding is awarded through a Fixed Amount grant based on Member Service Hours. In-kind support reporting is no longer required by CNCS under this fixed-amount type of grant.

For the program years ended in 2016 and 2015, CNCS awarded AU amounts to support the AIDS United AmeriCorps Program. Throughout the service year certain members do not complete the program year. In 2016 and 2015, this resulted in a decrease in member support expenses of \$35,800 and \$17,479, respectively, in unobligated federal grant funds. The unobligated portion of federal grants from the Corporation for National and Community Service is due to AmeriCorps member attrition and resulting lower expenses for member-related living allowances. During the year ended December 31, 2016, the federal grant from CNCS for the AmeriCorps Program ended.

I. COMMITMENTS AND CONTINGENCIES

Office lease: AU is obligated under a seven year non-cancelable lease that began July 21, 2010, for its headquarters office space located at 1424 K Street, NW, Washington, D.C. Office rent expense for the years ended December 31, 2016 and 2015 was \$231,027 and \$224,299, respectively.

During November 2016, AU entered into a new lease agreement for its new headquarters office space located at 1101 14th Street, NW, Washington, D.C. commencing August 1, 2017 through May 31, 2028. The lease contains an escalation of base rentals, as well as certain rent abatements and concessions from the landlord.

Sublease: AU subleased a portion of its office space during the year. Sublease income for the years ended December 31, 2016 and 2015 was \$4,856 and \$10,331, respectively.

Equipment operating leases: AU also leased office equipment on a monthly basis under a lease deemed to be an operating lease. Office equipment rental expense for the years ended December 31, 2016 and 2015 totaled approximately \$4,597 and \$4,917, respectively.

Notes to the Financial Statements

I. COMMITMENTS AND CONTINGENCIES – CONTINUED

Future minimum lease payments are as follows:

Year Ended December 31,	<u>Office Lease</u>	<u>Equipment Leases</u>	<u>Total</u>
2017	\$ 137,095	\$ 4,533	\$ 141,628
2018	170,600	3,853	174,453
2019	297,577	-	297,577
2020	305,016	-	305,016
2021	312,642	-	312,642
Thereafter	2,200,250	-	2,200,250
Totals	<u>\$ 3,423,180</u>	<u>\$ 8,386</u>	<u>\$ 3,431,566</u>

Government grants: Federal award revenue provided by U.S. government agencies in relation to expenditures incurred under grant agreements may be subject to audit or adjustment by the government agencies. The expenditures which may be disallowed as a result of an audit cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2016

Federal Grantor <i>Pass-Through Grantor</i> CFDA Program Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures	Expenditures to subrecipients
Corporation for National and Community Service (CNCS)				
AIDS United AmeriCorps Program - 2012-14	94.006	12EDHDCC003	\$ 351,031	\$ -
AIDS United Social Innovation Fund - 2010-14	94.019	10SIHDC001	1,006,643	784,176
Centers for Disease Control and Prevention (CDC)				
AIDS United M2M - 2015-16	93.118	1U62PS004991-01	122,970	-
AIDS United M2M - 2016-17	93.118	6 NU62PS004991-02-01	17,472	-
AIDS United CBC - 2015-16	93.939	5U65PS004409-02	305,160	-
AIDS United CBC - 2016-17	93.939	5 NU65PS004409-03-00	600,624	-
Health Resources & Services Administration (HRSA)				
Project Thrive: Transforming AIDS Service Organizations to Improve Sustainability and Health Outcomes 2015-16	93.145	U69HA27176	24,101	-
Project Thrive: Transforming AIDS Service Organizations to Improve Sustainability and Health Outcomes 2016-17	93.145	U69HA27176	14,521	-
HRSA-SPNS-ITAC 2015-16	93.928	6 U90HA292370101	1,017,695	437,952
HRSA-SPNS-ITAC 2016-17	93.928	5 U90HA292370200	593,759	380,425
Total Expenditures of Federal Awards			\$ 4,053,976	\$ 1,602,553

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of AIDS United (AU) and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statement

2. EXPENDITURES

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the SEFA follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The cost principles indicate that certain types of expenditures are not allowable or reimbursements of allowable costs are limited as to reimbursement.

3. INDIRECT COST RATE

AU has not elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance, but rather the rates established directly with the respective federal agency.

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 Trustees
AIDS United

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 AIDS United (AU), which comprise the statement of financial position as of December 31, 2016, the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered AU'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 AU's internal control. Accordingly, we do not express an opinion on the effectiveness of AU'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 AU'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 AU's financial statements are free of 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*.

To the Board of Trustees
June 26, 2017
Page 2

Purpose of this Report

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

Tate & Tryon

Washington, DC
June 26, 2017



Independent Auditor’s Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
AIDS United

Report on Compliance for the Major Federal Program

We have audited AIDS United, Inc. (AU)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on AU’s major federal programs for the year ended December 31, 2016. AU’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 the federal program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the AU’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 AU’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 AU’s compliance.

Opinion on the Major Federal Program

In our opinion, AU complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2016.

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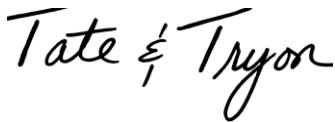
Report on Internal Control over Compliance

Management of AU 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 AU's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 AU'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.



Washington, DC
June 26, 2017

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2016**

Section I – Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over the major program:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X No

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR Section 200.516(a) _____ Yes X No

CFDA Number:

Identification of major program:

HRSA-SPNS-ITAC Special Projects of National Significance 93.928

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year

No matters were reported.