



HOLTHOUSE
CARLIN &
VAN TRIGT_{LLP}

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
FINANCIAL STATEMENTS – MODIFIED CASH BASIS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013

Independent Auditor's Report

To the Board of Trustees
Elton John AIDS Foundation, Inc.:

We have audited the accompanying financial statements of Elton John AIDS Foundation, Inc. (the "Foundation"), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2013, and the related statements of revenue and support, expenses and net assets – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements – modified cash basis.

Management's Responsibility for the Financial Statements – Modified Cash Basis

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independent Auditor's Report
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Elton John AIDS Foundation, Inc. as of December 31, 2013, and its revenue, support, expenses and its cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

As described at Note 1 of the financial statements, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

A handwritten signature in blue ink that reads "Hillhouse Carlin & Van Tigt LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
June 5, 2014

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
(MODIFIED CASH BASIS)
DECEMBER 31, 2013

ASSETS

Cash and cash equivalents	\$ 4,913,691
Marketable securities, at amortized cost	4,505,246
Loan receivable (Note 6)	56,415
Deposit	19,450
Furniture and fixtures, net of accumulated depreciation of \$67,498	<u>19,629</u>
 Total assets	 <u>\$ 9,514,431</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 120,499
 Commitments and contingencies (see Notes)	
 Net assets:	
Unrestricted net assets	<u>9,393,932</u>
 Total liabilities and net assets	 <u>\$ 9,514,431</u>

See accompanying notes to modified cash basis of accounting financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
STATEMENT OF REVENUE AND SUPPORT, EXPENSES AND NET ASSETS
(MODIFIED CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Public support and grants	\$ 2,278,618	\$ 219,790	\$ 2,498,408
Special events revenue	8,802,467	-	8,802,467
Investment income	94,297	-	94,297
Net assets released from program restrictions	<u>236,622</u>	<u>(236,622)</u>	<u>-</u>
Total revenue and support	<u>11,412,004</u>	<u>(16,832)</u>	<u>11,395,172</u>
 Program expenses:			
Domestic grants and awards	5,775,310	-	5,775,310
International grants and awards	820,275	-	820,275
General and administrative program expenses	<u>1,224,080</u>	<u>-</u>	<u>1,224,080</u>
Total program expenses	7,819,665	-	7,819,665
 General and administrative	492,289	-	492,289
Fundraising	259,911	-	259,911
Special events expense	1,856,482	-	1,856,482
Amortization of premiums and discounts on marketable securities	<u>88,073</u>	<u>-</u>	<u>88,073</u>
Total expenses	<u>10,516,420</u>	<u>-</u>	<u>10,516,420</u>
 Change in net assets	895,584	(16,832)	878,752
 Net assets, beginning of year	<u>8,498,348</u>	<u>16,832</u>	<u>8,515,180</u>
 Net assets, end of year	<u>\$ 9,393,932</u>	<u>\$ -</u>	<u>\$ 9,393,932</u>

See accompanying notes to modified cash basis of accounting financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

(A NONPROFIT GEORGIA CORPORATION)

STATEMENT OF CASH FLOWS

(MODIFIED CASH BASIS)

FOR THE YEAR ENDED DECEMBER 31, 2013

Cash flows from operating activities:	
Cash receipts:	
Public support and grants	\$ 2,498,408
Special events revenue	8,802,467
Investment income	94,297
Total receipts	<u>11,395,172</u>
Cash disbursements:	
Domestic grants and awards	5,775,310
International grants and awards	820,275
General and administrative	1,593,073
Fundraising	259,911
Special events expense	1,856,482
Total disbursements	<u>10,305,051</u>
Net cash provided by operating activities	<u>1,090,121</u>
Cash flows from investing activities:	
Purchase of furniture and fixtures	(10,120)
Sales of marketable securities	3,242,715
Purchases of marketable securities	<u>(4,500,000)</u>
Net cash used in investing activities	<u>(1,267,405)</u>
Net decrease in cash and cash equivalents	(177,284)
Cash and cash equivalents, beginning of year	<u>5,090,975</u>
Cash and cash equivalents, end of year	<u>\$ 4,913,691</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Increase in unrestricted net assets	\$ 878,752
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,731
Amortization of premiums and discounts on marketable securities	88,073
Changes in operating assets:	
Accounts payable	<u>119,565</u>
Net cash provided by operating activities	<u>\$ 1,090,121</u>

See accompanying notes to modified cash basis of accounting financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(MODIFIED CASH BASIS)
DECEMBER 31, 2013

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Elton John AIDS Foundation, Inc. ("EJAF" or the "Foundation") is a Georgia nonprofit corporation organized to provide funding for the care and needs of individuals infected with the human immunodeficiency virus ("HIV") and education relating to HIV.

Basis of Presentation

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, revenues are generally recognized when received rather than when earned, and expenses are generally recognized when paid rather than when the obligation is incurred.

As permitted under the modified cash basis of accounting, the Foundation records depreciation on furniture and fixtures. The Foundation also records liabilities for certain obligations when funds are received on behalf of third parties but have not been distributed. These liabilities are included in accounts payable on the accompanying statement of assets, liabilities and net assets.

At December 31, 2013, there were no temporarily restricted net assets.

In-kind Donations

The Foundation receives a significant amount of support in the form of goods and services from donors in connection with its fundraising activities. The modified cash basis of accounting does not require that these in-kind contributions be recognized. Accordingly, these financial statements do not reflect these contributions. If these contributions were recorded, revenues and expenses would increase by the fair market value of the contributions. A number of volunteers have donated significant amounts of their time in the Foundation's fundraising efforts. During 2013, significant donations included pro bono legal services, tax return preparation services, and complimentary air travel of \$68,445, \$15,000 and \$175,000 respectively.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. There were no interest or income taxes paid during 2013.

Use of Estimates

The preparation of these financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and support, expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(MODIFIED CASH BASIS)
DECEMBER 31, 2013

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Business and Credit Risk

The Foundation's cash and cash equivalents are maintained in various bank accounts. The Foundation has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. The Foundation believes that its credit risk is not significant.

The Foundation receives a significant amount of support in the form of goods and services from donors in connection with its fundraising events (see Notes 7 and 8). Under the modified cash basis of accounting, the Foundation does not record these donations in the accompanying financial statements. If the Foundation was unable to secure donors to provide this support, its expenses would increase. Donor support includes, but is not limited to, travel costs, facility rental, food and beverages.

There were no grant recipients that accounted for 10% or more of the total grants and awards made by the Foundation for the year ended December 31, 2013.

Marketable Securities

The Foundation's marketable securities consist of money market instruments, domestic corporate bonds and foreign corporate bonds. The investments are classified as held-to-maturity based on the Foundation's positive intent and ability to hold the securities to maturity, and accordingly, the investments are stated at amortized cost. Amortization of investment premiums and discounts amounted to \$88,073 for the year ended December 31, 2013. The Foundation has recorded total investment income of \$94,297 related to its investments for the year ended December 31, 2013. Investment management fees were \$8,090 and are included in general and administrative expenses for the year ended December 31, 2013. Unrealized gains and losses were not reflected in the accompanying financial statements since the investments are held-to-maturity and the amortized cost at maturity equals the realized value. Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. No impairment losses were recognized during the year ended December 31, 2013.

A summary of marketable securities as of December 31, 2013 is as follows:

	Fair Value	Amortized Cost
Money market instruments	\$ 2,449,217	\$ 2,448,812
Domestic corporate bonds	1,504,733	1,505,039
Foreign corporate bonds	551,313	551,395
	<u>\$ 4,505,263</u>	<u>\$ 4,505,246</u>

ELTON JOHN AIDS FOUNDATION, INC.
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DECEMBER 31, 2013

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture and Fixtures

Furniture and fixtures are recorded at cost net of accumulated depreciation. Furniture and fixtures contributed to the Foundation are recorded at fair value at the time of the contribution. Depreciation of furniture and fixtures is provided over five years, the estimated useful lives of the assets, using the straight-line method.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and a similar provision of the state code. Therefore, no provision for income tax has been recorded in the accompanying modified cash basis of accounting financial statements. The Foundation is not aware of any activity that would cause it to lose its non-profit status nor does it believe there is any unrelated business taxable income subject to income tax. The Foundation is no longer subject to income tax examinations by tax authorities for years before 2009.

NOTE 2. GRANTS AND AWARDS

The scope of EJAF's grant-making encompasses grassroots and community-based programs, regional partnerships, national strategies and policies and international cooperative efforts. The Foundation's grant-making priorities focus on HIV prevention programs, harm reduction efforts, public education to reduce the stigma of HIV/AIDS, programs empowering HIV/AIDS-impacted communities to advocate for their health and human rights, compassionate AIDS-related public policy development and direct services to persons living with HIV/AIDS. Direct services include HIV/AIDS-related medical and mental health treatment, testing and counseling services, case management and social service coordination, legal aid and professional training.

The Foundation's regional, national, and international leadership in this field is predicated upon (1) its vigilant attention to the constant changes and challenges of this ever-evolving global epidemic, (2) its commitment to the development of strong partnerships with like-minded organizations in order to maximize resources and minimize duplication of effort, and (3) its strategic investment of donor dollars to have the greatest possible impact in reducing the incidence of HIV/AIDS.

NOTE 3. PROMISES TO GIVE

From 2005 to the present, EJAF has invested more than \$3.2 million nationally in needle exchange and harm reduction services through the Syringe Access Fund, a grant-making partnership with AIDS United, the Irene Diamond Fund, The Open Society Foundations and the Levi Strauss Foundation. In 2013, EJAF made a two-year commitment of \$2 million in grants selected through the Syringe Access Fund. This grant cycle runs from December 2013 through December 2015, of which \$990,000 was distributed during 2013, \$20,000 was distributed in 2014 thus far, and the balance will be distributed in December 2014. Under the modified cash basis of accounting, these grants are recorded in the statement of revenue and support, expenses and net assets when paid.

ELTON JOHN AIDS FOUNDATION, INC.
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 NOTES TO FINANCIAL STATEMENTS
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NOTE 4. LEASE COMMITMENTS

The Foundation has an office lease in New York which expires on June 30, 2015. The rent is \$6,295 per month, increasing annually by three percent. Rent expense for the year ended December 31, 2013 amounted to \$74,435.

Future lease commitments under this agreement are as follows:

<u>Years Ending December 31:</u>	<u>Amount</u>
2014	\$ 76,668
2015	38,900
	<u>\$ 115,568</u>

NOTE 5. GRANTS RECEIVABLE

In December 2010, a private foundation pledged \$250,000 over five years in support of EJAF's grant making initiatives targeting gay, bisexual and other men who have sex with men. EJAF received the first payment of \$50,000 in December 2010. The second payment of \$50,000 was received in December 2011. The third payment of \$50,000 was received in November 2012. The fourth payment of \$50,000 was received in December 2013, and the fifth and final payment is anticipated to be received in December of 2014.

Under the modified cash basis of accounting, revenue is recognized when the contribution is received.

NOTE 6. LOAN RECEIVABLE

The Foundation, along with five other charitable organizations, was selected as a beneficiary of the Jerry Katz estate. The Foundation, along with the other charitable beneficiaries, each agreed to make a \$56,415 loan (the "Loan") to the Jerry Katz trust (the "Trust"), which would be used to support Mr. Katz's widow, as stated in the agreement. Interest is calculated at 5% per annum and the Loan was originally secured by the Katz's New York Condominium. In accordance with the agreement, at the time of Mrs. Katz's passing, the Trust, including most notably the New York City condominium where she lives, will be liquidated with the net proceeds (after expenses) to be used first to repay each charity the sum of the respective loan and any unpaid interest. No payments have been received on the Loan since July 2011 and interest has continued to accrue since such time. Subsequently, after the proceeds from the Loan were exhausted, Mrs. Katz became unable to afford basic living expenses and therefore, the five charities agreed to release their liens on the condominium to enable its sale to an independent third party buyer. The sale occurred on February 6, 2014, and Mrs. Katz subsequently leased the condominium from the new owner. The net proceeds from the sale were placed in the Trust and will be used for Mrs. Katz living expenses. Following Mrs. Katz's passing, any net proceeds (after expenses) remaining in the Trust will be used first to repay each beneficiary, pro rata, the principal and interest due under the loans and, if there remain additional funds, they will be distributed to the Foundation and the five other charitable organizations as beneficiaries.

ELTON JOHN AIDS FOUNDATION, INC.
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NOTE 7. ANNUAL FUNDRAISING / SPECIAL EVENTS

Major fundraising events held during 2013 consisted of the following:

An Enduring Vision – New York City Fall Benefit

An Enduring Vision has become the Foundation’s annual fall fundraiser which occurs in New York City. It includes a dinner, a live auction and musical performances. It is also the event at which the Foundation honors its most dedicated supporters. The 2013 event raised \$3,502,765, all of which was received in 2013.

Academy Awards Viewing Party

The Foundation’s annual Academy Awards Viewing Party (the “Oscar Party”) includes a dinner during the Oscars telecast, a live auction and live musical performances. The 21st annual Oscar Party took place in 2013 and was sponsored by Chopard, Neuro Drinks and Wells Fargo. EJAF raised a total of \$4,791,080 from this event, of which \$786,973 was received in 2012 and \$4,004,107 was received in 2013.

Smash Hits

Smash Hits, the Foundation’s annual tennis fundraiser, is produced by World Team Tennis and the Foundation’s Board members Billie Jean King and Ilana Kloss. It includes a VIP reception and celebrity tennis matches. The 2013 Smash Hits took place at HP Field House at ESPN Wide World of Sports Complex in Orlando, Florida. The 2013 event raised \$705,582, of which \$676,546 was received in 2013 and \$19,036 was received in 2014. The remaining \$10,000 is expected to be received in 2014. In January 2014, \$15,353 was distributed as a grant to Hope and Help Center of Central Florida.

Special event revenues are recognized in the accompanying financial statements in the year received and expenses are recognized in the year paid. During 2013, EJAF collected revenues and paid expenses related to the 2012, 2013, and 2014 events, which are recognized in the accompanying financial statements for the year ended December 31, 2013 as follows:

	<u>An Enduring Vision</u>	<u>Oscar Party</u>	<u>Smash Hits</u>	<u>Total</u>
Special events revenue	\$ 3,582,765	\$ 4,542,156	\$ 677,546	\$ 8,802,467
Less:				
Direct event expenses	(497,370)	(1,356,358)	(2,754)	(1,856,482)
Expenses allocated to program expenses	<u>(124,343)</u>	<u>(339,089)</u>	<u>(688)</u>	<u>(464,120)</u>
Total event expenses	<u>(621,713)</u>	<u>(1,695,447)</u>	<u>(3,442)</u>	<u>(2,320,602)</u>
Net special events revenue	<u>\$ 2,961,052</u>	<u>\$ 2,846,709</u>	<u>\$ 674,104</u>	<u>\$ 6,481,865</u>

ELTON JOHN AIDS FOUNDATION, INC.
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NOTE 8. ADDITIONAL FUNDRAISING ACTIVITIES AND SUPPORT

In 2010, EJAF began collaboration with the Henry J. Kaiser Family Foundation in support of a portion of the Greater than AIDS Campaign specifically focused on, gay, bisexual, and other men who have sex with men. EJAF provided a grant to the Henry J. Kaiser Family Foundation for \$350,000 in 2013 in support of the Greater Than AIDS Campaign.

In addition, the collaboration with the Henry J. Kaiser Family Foundation has resulted in EJAF being requested to serve as the administrator and fiscal manager for grant funding received from several local and state health departments across the country to be distributed by EJAF on behalf of the Greater than AIDS Campaign in those specific regions. EJAF received a total of \$210,000 in Greater than AIDS Campaign grant related funds during 2013 from the Texas Department of Health. EJAF expended \$236,622 in 2013. The grants are administered through EJAF with oversight support provided by the Henry J. Kaiser Family Foundation. The initial administrative fee of 3.5% of the total grant is recognized as revenue on a pro rata basis as the grant is used. As of December 31, 2013, all administrative fees have been earned and received.

NOTE 9. RETIREMENT PLAN

The Foundation sponsors a 403(b) employee retirement plan for the benefit of its employees. The Foundation offers a Safe Harbor qualified matching contribution of 100% up to 6% of the employees' compensation. During 2013, the Foundation made matching contributions totaling \$19,720.

NOTE 10. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events that have occurred from January 1, 2014 through June 5, 2014, which is the date that the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements, except as disclosed in notes 3, 6 and 7.