

ELTON JOHN AIDS FOUNDATION, INC.

(A NONPROFIT GEORGIA CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014

Bonadio & Co., LLP
Certified Public Accountants

ELTON JOHN AIDS FOUNDATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

August 7, 2015

To the Board of Trustees of
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 financial position as of December 31, 2014, and the related statements of activities and change in net assets and cash flows for the year 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 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 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 the Foundation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Basis

As further described in Note 1 to the financial statements, the Foundation changed its basis of accounting from the modified cash basis to accounting principles generally accepted in the United States of America effective January 1, 2014. Our opinion is not modified with respect to that matter.

Bonadio & Co., LLP

ELTON JOHN AIDS FOUNDATION, INC.
 (A NONPROFIT GEORGIA CORPORATION)
 STATEMENT OF FINANCIAL POSITION
 DECEMBER 31, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,933,262
Marketable securities, at amortized cost	7,137,016
Donations receivable	76,346
Prepaid expenses	<u>342,586</u>
Total current assets	10,489,210
Furniture and fixtures, net of accumulated depreciation of \$72,497	14,630
Other assets	<u>56,415</u>
Total assets	<u><u>\$ 10,560,255</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 80,777
Grants payable	65,783
Deferred revenue on special events	<u>1,206,556</u>
Total liabilities	<u>1,353,116</u>
Commitments and contingencies (see Notes)	
Net assets:	
Unrestricted net assets	9,061,870
Temporarily restricted	<u>145,269</u>
Total net assets	<u>9,207,139</u>
Total liabilities and net assets	<u><u>\$ 10,560,255</u></u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
(A NONPROFIT GEORGIA CORPORATION)
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Public support and grants	\$ 2,809,407	\$ 429,925	\$ 3,239,332
Special events revenue	8,749,769	-	8,749,769
Investment income	56,333	-	56,333
Net assets released from program restrictions	<u>284,656</u>	<u>(284,656)</u>	<u>-</u>
Total revenue and support	<u>11,900,165</u>	<u>145,269</u>	<u>12,045,434</u>
Expenses			
Program Services:			
Grants and grant oversight	7,917,005	-	7,917,005
Public education/advocacy	<u>985,547</u>	<u>-</u>	<u>985,547</u>
Total program services	8,902,552	-	8,902,552
Support services			
Management and general	372,938	-	372,938
Fundraising	<u>2,503,850</u>	<u>-</u>	<u>2,503,850</u>
Total support services	<u>2,876,788</u>	<u>-</u>	<u>2,876,788</u>
Total expenses	<u>11,779,340</u>	<u>-</u>	<u>11,779,340</u>
Change in net assets	120,825	145,269	266,094
Net assets, beginning of year, modified cash basis	9,393,932	-	9,393,932
Effect of change in accounting basis to U.S. GAAP (Note 1)	<u>(452,887)</u>	<u>-</u>	<u>(452,887)</u>
Net assets, end of year	<u>\$ 9,061,870</u>	<u>\$ 145,269</u>	<u>\$ 9,207,139</u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

(A NONPROFIT GEORGIA CORPORATION)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities:	
Cash receipts:	
Public support and grants	\$ 3,242,025
Special events revenue	9,418,276
Investment income	83,816
Total receipts	<u>12,744,117</u>
Cash disbursements:	
Grants and grant oversight	7,851,222
Public education/advocacy	985,547
General and administrative	483,803
Special events expense	2,744,721
Total disbursements	<u>12,065,293</u>
Net cash provided by operating activities	<u>678,824</u>
Cash flows from investing activities:	
Sales of marketable securities	21,223,703
Purchases of marketable securities	<u>(23,882,956)</u>
Net cash used in investing activities	<u>(2,659,253)</u>
Net decrease in cash and cash equivalents	(1,980,429)
Cash and cash equivalents, beginning of year	<u>4,913,691</u>
Cash and cash equivalents, end of year	<u>\$ 2,933,262</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Increase in unrestricted net assets	\$ 266,094
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,999
Amortization of premiums and discounts on marketable securities	27,483
Changes in operating assets:	
Donations receivable	2,693
Prepaid expenses	(240,871)
Accounts payable	(115,864)
Grants payable	65,783
Deferred revenue	668,507
Net cash provided by operating activities	<u>\$ 678,824</u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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 as of and for the year ended December 31, 2014, have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Prior to January 1, 2014, the Foundation's financial statements had been prepared on the modified cash basis. Effective January 1, 2014, the Foundation changed its basis of accounting to U.S. GAAP. The new accounting basis was adopted because the Foundation believes the accrual basis of accounting provides a more meaningful presentation of its financial position.

The primary differences between the modified cash basis of accounting and U.S. GAAP are that under the modified cash basis of accounting revenues are generally recognized when received, and under U.S. GAAP revenues are recognized when earned. Additionally, under the modified cash basis of accounting expenses are generally recognized when paid, and under U.S. GAAP expenses are recognized when the obligation is incurred. The effect of the change in accounting basis as of January 1, 2014, was a decrease in unrestricted net assets totaling \$452,887.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Revenue Recognition

The Foundation recognizes contributions, including unconditional promises to give to the Foundation, as revenue in the period received or pledged. Contributions of marketable securities are recorded at fair market value at the date of donation. Revenues from special events are recognized in the month the event occurs. Cash received in advance of the event is recorded as deferred revenue on the accompanying statement of financial position until the month of the event, at which time revenue is recognized.

Contributed Services and Materials

Contributed services are recognized if the services received either create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of contributed services and materials recorded in the accompanying statement of activities and change in net assets, consisting of pro bono legal services, tax return preparation services, and complimentary air travel was \$61,760, \$26,850, and \$175,000, respectively, for the year ended December 31, 2014.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification and Reporting of Funds

The Foundation presents its net assets under three separate classifications: unrestricted, temporarily restricted, and permanently restricted. Temporarily restricted and permanently restricted funds are those funds that may be used only in accordance with the purposes established by the donor and are distinguished from unrestricted funds in which the Foundation retains full control with respect to the use thereof. The Foundation had restrictions on expendable funds of \$429,925 of which \$284,656 were disbursed in 2014 (see Note 3). The remaining \$145,269 is expected to be disbursed in 2015.

Charitable Donations and Grants

Charitable donations are recognized in the period the grant/donation is approved, provided the grant/donation is not subject to future conditions. Conditional grants/donations are recognized as donation expense and as a promise to give in the period in which the grantee meets the terms of the conditions. Grants that are expected to be paid in future years are recorded at the present value of expected future payments. As of December 31, 2014, the Foundation had no outstanding grants payable.

Presentation of Expenses on the Statement of Activities

The costs of providing the program and other activities have been allocated among programs, fundraising, special events, and supportive services. Program expense includes domestic and international grants. Fundraising expenses consist of costs incurred to solicit funds for the Foundation. Special events are related to costs of direct benefits to the donors attending the events. Supportive expenses relate to activities which support the donation-making process as well as administrative operational costs.

Use of Estimates

The 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 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 for the reporting period. Actual results could differ from these estimates.

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 invests in fixed income securities which are subject to appreciation/depreciation depending on various factors, which affect the investment balances. The Foundation has professional investment firms manage the investments.

There were no donors that accounted for 10% or more of the Foundation's contribution revenue for the year ended December 31, 2014.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

Marketable Securities

The Foundation's marketable securities consist of certificates of deposit and domestic 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 \$27,483 for the year ended December 31, 2014. The Foundation has recorded total investment income of \$83,816 related to its investments for the year ended December 31, 2014.

Investment management fees were \$8,090 and are included in general and administrative expenses for the year ended December 31, 2014. 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, 2014.

A summary of marketable securities as of December 31, 2014 is as follows:

	<u>Fair Value</u>	<u>Amortized Cost</u>
Certificates of deposit	\$ 6,631,130	\$ 6,637,015
Domestic corporate bonds	500,023	500,001
	<u>\$ 7,131,153</u>	<u>\$ 7,137,016</u>

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation and are depreciated using the straight-line methods over estimated useful lives of five years.

Property at December 31, 2014 consists of the following:

Furniture and fixtures	\$ 21,217
Office equipment	59,975
Computer software	5,935
Total property and equipment	<u>87,127</u>
Less: accumulated depreciation	<u>(72,497)</u>
Property and equipment, net	<u>\$ 14,630</u>

Depreciation expense for the year ended December 31, 2014 amounted to \$4,999.

Income Taxes

The Foundation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and from state income tax under comparable provisions. However, income from certain activities not directly related to the Foundation's tax exempt purpose is subject to taxation as unrelated business income. The Foundation does not have any income, which it believes would subject it to unrelated business income taxes.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

Income Taxes (continued)

The Foundation has adopted the accounting topic for income taxes, which provides guidance for how uncertain income tax provisions should be recognized, measured, presented and disclosed in the financial statements. The Foundation recognizes the effects of income tax positions only if those positions are more likely than not to be sustained in the future. The Foundation determined that there are no uncertain tax positions that would have a material effect on the financial statements. With few exceptions, the Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2010. There are no tax examinations currently pending.

NOTE 2. ANNUAL FUNDRAISING / SPECIAL EVENTS

Major fundraising events held during 2014 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 2014 event raised \$3,824,351.

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 22nd annual Oscar Party took place in 2014 and was sponsored by Chopard, Neuro Drinks and Wells Fargo. The 2014 event raised \$4,925,418.

Special event revenues and expenses are recognized in the accompanying financial statements when the event occurred. During 2014, The Foundation received \$1,101,472 for the 2015 Academy Awards Viewing Party, which is included in deferred revenue in the accompanying statement of financial position.

A part of the special events expenses are related to program activities. Those activities included public education and advocacy. The costs of conducting those activities included a total of \$519,335 of joint costs.

The summary of special event revenues and expenses is as follows:

	An Enduring Vision	Oscar Party	Total
Special events revenue	\$ 3,824,351	\$ 4,925,418	\$ 8,749,769
Less:			
Direct event expenses	(501,914)	(1,575,427)	(2,077,341)
Expenses allocated to program expenses	(125,479)	(393,856)	(519,335)
Total event expenses	<u>(627,393)</u>	<u>(1,969,283)</u>	<u>(2,596,676)</u>
Net special events revenue	<u>\$ 3,196,958</u>	<u>\$ 2,956,135</u>	<u>\$ 6,153,093</u>

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 3. 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 \$150,000 in 2014 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 \$429,925 in Greater than AIDS Campaign grant related funds during 2014 from the Texas Department of Health, \$274,693 of which were disbursed in 2014. 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, 2014, all administrative fees have been earned and received.

NOTE 4. 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 5. LEASE COMMITMENTS

The Foundation has an office lease in New York which expires on June 30, 2015 (see Note 7). The rent is \$6,295 per month, increasing annually by three percent. Rent expense for the year ended December 31, 2014 amounted to \$73,210.

Future lease commitments under this agreement are as follows:

<u>Years Ending December 31,</u>	<u>Rent</u>	<u>Rent</u>	<u>Deferred</u>
<u>2015</u>	<u>Payments</u>	<u>Expense</u>	<u>Rent</u>
	\$ 38,534	\$ 36,699	\$ 1,834

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 6. RETIREMENT PLAN

The Foundation sponsors a 403(b) defined contribution employee retirement plan for the benefit of its qualified employees. The Foundation offers a Safe Harbor qualified matching contribution of 100% up to 6% of the employees' compensation. During 2014, the Foundation made matching contributions totaling \$23,900.

NOTE 7. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events that have occurred January 1, 2015 through August 7, 2015, 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 discussed below.

In June 2015, the Foundation entered into a 5 year lease agreement to extend the terms of its leased office in New York.