

ELTON JOHN AIDS FOUNDATION, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015

Bonadio & Co., LLP
Certified Public Accountants

ELTON JOHN AIDS FOUNDATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

July 6, 2016

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, 2015, and the related statements of activities and change in and net assets, functional expenses, 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 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 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

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, 2015, 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.

Bonadio & Co., LLP

ELTON JOHN AIDS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,322,844
Marketable securities, at amortized cost	8,341,010
Contributions receivable	437,513
Prepaid expenses	<u>141,914</u>
Total current assets	11,243,281

Furniture and fixtures, net of accumulated depreciation of \$77,795	12,327
Other assets	<u>56,415</u>

Total assets	<u>\$ 11,312,023</u>
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LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 269,881
Grants payable	2,125,000
Deferred revenue on special events	<u>1,001,413</u>
Total liabilities	3,396,294

Commitments and contingencies (see Notes)

Unrestricted net assets	<u>7,915,729</u>
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Total liabilities and net assets	<u>\$ 11,312,023</u>
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See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Public support and grants	\$ 4,422,387	\$ 50,000	\$ 4,472,387
Special events revenue	8,964,778	-	8,964,778
Investment income, net	42,247	-	42,247
Net assets released from program restrictions	195,269	(195,269)	-
Total revenue and support	<u>13,624,681</u>	<u>(145,269)</u>	<u>13,479,412</u>
Expenses:			
Program services:			
Grants and grant oversight	10,867,555	-	10,867,555
Public education/advocacy	948,667	-	948,667
Total program services	<u>11,816,222</u>	<u>-</u>	<u>11,816,222</u>
Support services			
Management and general	389,192	-	389,192
Fundraising	2,565,408	-	2,565,408
Total support services	<u>2,954,600</u>	<u>-</u>	<u>2,954,600</u>
Total expenses	<u>14,770,822</u>	<u>-</u>	<u>14,770,822</u>
Change in net assets	(1,146,141)	(145,269)	(1,291,410)
Net assets, beginning of year	<u>9,061,870</u>	<u>145,269</u>	<u>9,207,139</u>
Net assets, end of year	<u>\$ 7,915,729</u>	<u>\$ -</u>	<u>\$ 7,915,729</u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			Support Services			Total
	Grants and Grant Oversight	Public Education/ Advocacy	Program Services Total	Management and General	Fundraising	Support Services Total	
Grants and awards:							
Domestic grants and awards	\$ 9,023,802	\$ -	\$ 9,023,802	\$ -	\$ -	\$ -	\$ 9,023,802
International grants and awards	1,060,000	-	1,060,000	-	-	-	1,060,000
Total grants and awards	<u>10,083,802</u>	<u>-</u>	<u>10,083,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,083,802</u>
Operating expenses:							
Accounting	14,678	-	14,678	45,311	3,829	49,140	63,818
Bank and credit card processing fees	-	-	-	684	102,081	102,765	102,765
Communication and marketing	-	401,595	401,595	-	-	-	401,595
Depreciation	-	-	-	5,298	-	5,298	5,298
Employee benefits	38,137	-	38,137	15,255	22,882	38,137	76,274
Events	-	11,492	11,492	-	45,970	45,970	57,462
Insurance	-	-	-	16,867	-	16,867	16,867
Investment management	-	-	-	10,182	-	10,182	10,182
Legal	11,674	-	11,674	36,036	3,045	39,081	50,755
License and fees	-	-	-	12,102	-	12,102	12,102
Office expense	7,580	-	7,580	60,141	4,224	64,365	71,945
Payroll taxes	15,411	-	15,411	6,164	9,246	15,410	30,821
Professional fees	159,995	-	159,995	26,972	2,279	29,251	189,246
Rent expense	77,886	-	77,886	19,472	-	19,472	97,358
Salaries	269,761	-	269,761	132,824	155,377	288,201	557,962
Special events	-	535,580	535,580	-	2,142,320	2,142,320	2,677,900
Telephone and telecommunication	5,838	-	5,838	1,168	4,670	5,838	11,676
Travel and meetings	182,793	-	182,793	716	69,485	70,201	252,994
Total operating expenses	<u>783,753</u>	<u>948,667</u>	<u>1,732,420</u>	<u>389,192</u>	<u>2,565,408</u>	<u>2,954,600</u>	<u>4,687,020</u>
Total functional expenses	<u>\$ 10,867,555</u>	<u>\$ 948,667</u>	<u>\$ 11,816,222</u>	<u>\$ 389,192</u>	<u>\$ 2,565,408</u>	<u>\$ 2,954,600</u>	<u>\$ 14,770,822</u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

Cash flows from operating activities:	
Cash receipts:	
Public support and grants	\$ 4,111,220
Special events revenue	8,759,635
Investment income	36,603
Total receipts	<u>12,907,458</u>
Cash disbursements:	
Grants and grant oversight	8,808,338
Public education/advocacy	948,667
Management and general	194,790
Special events expense	2,364,736
Total disbursements	<u>12,316,531</u>
Net cash provided by operating activities	<u>590,927</u>
Cash flows from investing activities:	
Purchase of equipment	(2,995)
Sales of marketable securities	17,262,767
Purchases of marketable securities	<u>(18,461,117)</u>
Net cash used in investing activities	<u>(1,201,345)</u>
Net decrease in cash and cash equivalents	(610,418)
Cash and cash equivalents, beginning of year	<u>2,933,262</u>
Cash and cash equivalents, end of year	<u>\$ 2,322,844</u>
Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ (1,291,410)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,298
Amortization of premiums and discounts on marketable securities	(5,644)
Changes in operating assets:	
Contributions receivable	(361,167)
Prepaid expenses	200,672
Accounts payable	189,104
Grants payable	2,059,217
Deferred revenue	<u>(205,143)</u>
Net cash provided by operating activities	<u>\$ 590,927</u>

See accompanying notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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, 2015, 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").

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 \$195,269 which were disbursed in 2015 (see Note 3). There were no restricted net assets as of December 31, 2015.

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 assets, liabilities and net assets until the month of the event, at which time revenue is recognized.

Contributions Receivable

Contributions receivable are stated at the amount pledged by donors net of net present value discounts. The Foundation provides an allowance for doubtful pledges receivable, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent pledges receivable are written off based on the specific circumstances of the donor making the pledge. As of December 31, 2015, the Foundation had contributions receivable of \$437,513, which are included in the accompanying statement of financial position. As of December 31, 2015, the Foundation had no allowance for doubtful pledge receivables.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 statements of activities, consisting of pro bono legal services, tax return preparation services, and complimentary air travel of \$50,755, \$26,800, and \$106,000, respectively, for the year ended December 31, 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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the grants and grant oversight, public education/advocacy, management and general, and fundraising categories based on the management estimates.

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. Significant estimates include the allocation of functional expenses. Actual results could differ from these estimates.

Marketable Securities

The Foundation's marketable securities consisted of certificates of deposit and corporate bonds, however the corporate bonds held by the Foundation matured during 2015. 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. As of December 31, 2015, the certificate of deposits recorded at amortized cost amounted to \$8,341,010. The difference between the amortized cost balance and the fair value of the marketable securities was not material as of December 31, 2015. Amortization of investment premiums and discounts amounted to \$5,644 for the year ended December 31, 2015. The Foundation has recorded total investment income of \$36,603 related to its investments for the year ended December 31, 2015.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities (Continued)

Investment management fees were \$10,182 and are included in management and general expenses for the year ended December 31, 2015. 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, 2015.

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 believes that the risk is mitigated because the Foundation invests in held-to-maturity securities. 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, 2015.

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 and equipment at December 31, 2015 consists of the following:

Furniture and fixtures	\$	21,217
Office equipment		62,970
Computer software		5,935
Total property and equipment		<u>90,122</u>
Less: accumulated depreciation		<u>(77,795)</u>
Property and equipment, net	\$	<u>12,327</u>

Depreciation expense for the year ended December 31, 2015 amounted to \$5,298.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The Foundation follows the provisions of 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 2011. There are no tax examinations currently pending.

NOTE 2. ANNUAL FUNDRAISING / SPECIAL EVENTS

Major fundraising events held during 2015 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 2015 event raised revenue of \$3,304,988.

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 23rd annual Oscar Party took place in 2015 and was sponsored by Chopard, Neuro Drinks and Wells Fargo. The 2015 event raised revenue of \$5,659,790.

Special event revenues and expenses are recognized in the accompanying financial statements when the event occurred. During 2015, The Foundation received \$1,001,413 for 2016 Academy Awards Viewing Party which is included in deferred revenue in the accompanying statements of assets, liabilities and net assets.

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 \$535,580 of joint costs for the year ended December 31, 2015.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 2. ANNUAL FUNDRAISING / SPECIAL EVENTS

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

	An Enduring Vision	Oscar Party	Total
Special events revenue	\$ 3,304,988	\$ 5,659,790	\$ 8,964,778
Less:			
Direct event expenses	(482,955)	(1,659,365)	(2,142,320)
Expenses allocated to program expenses	<u>(120,739)</u>	<u>(414,841)</u>	<u>(535,580)</u>
Total event expenses	<u>(603,694)</u>	<u>(2,074,206)</u>	<u>(2,677,900)</u>
Net special events revenue	<u>\$ 2,701,294</u>	<u>\$ 3,585,584</u>	<u>\$ 6,286,878</u>

NOTE 3. ADDITIONAL FUNDRAISING ACTIVITIES AND SUPPORT

Greater than AIDS Campaign

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 2015 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 \$50,000 in Greater than AIDS Campaign grant related funds during 2015 from the Texas Department of Health, which was disbursed by EJAF in 2015. Additionally, in 2015 EJAF disbursed an additional \$145,269 of related funds that had been received in 2014 and recognized as temporarily restricted revenue. 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, 2015, all administrative fees have been earned and received.

Smash Hits

Smash Hits, the Foundation's 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 Foundation received the net proceeds from the 2015 event, which totaled \$1,037,720 and is included in public support and grants in the accompanying statement of activities and change in net assets.

ELTON JOHN AIDS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

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.

For the year ended December 31, 2015, the total grant expenditures amounted to \$10,083,802, of which \$1,060,000 was disbursed to the international organizations. During 2015, \$800,000 of the international grants was disbursed to Elton John AIDS Foundation – UK, an affiliate organization through the common founder.

NOTE 5. GRANTS PAYABLE

From 2005 to the present, EJAF has invested more than \$5.2 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 2015, EJAF made a two-year commitment of \$2 million in grants selected through the Syringe Access Fund. This grant cycle runs from December 2015 through December 2017, of which \$1,000,000 was disbursed in January 2016. The remaining \$1,000,000 will be disbursed in December 2017.

As of December 31, 2015, outstanding grants payable amounted to \$2,125,000, which is included in the accompanying statement of financial position.

NOTE 6. LEASE COMMITMENTS

The Foundation has an office lease in New York which expires on June 30, 2020. The rent is \$8,558 per month, increasing annually by three percent. Rent expense for the year ended December 31, 2015 amounted to \$97,358. The difference between the rent payments and straight line rent expense is recorded as a deferred rent liability which is included in accounts payable and accrued expenses in the accompanying statement of financial position.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 6. LEASE COMMITMENTS

Future lease commitments under this long-term non-cancelable agreement are as follows:

<u>Years Ending December 31,</u>	<u>Rent Payments</u>	<u>Rent Expense</u>	<u>Deferred Rent</u>
2016	\$ 104,241	\$ 109,050	\$ 4,809
2017	107,368	109,050	1,682
2018	110,589	109,050	(1,539)
2019	113,907	109,050	(4,857)
2020	57,795	54,525	(3,270)
Total	<u>\$ 493,900</u>	<u>\$ 490,725</u>	<u>\$ 3,175</u>

NOTE 7. 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 2015, the Foundation made discretionary matching contributions totaling \$20,948.

NOTE 8. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events that have occurred from January 1, 2016 through July 6, 2016, 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 Note 5.