

ELTON JOHN AIDS FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

ELTON JOHN AIDS FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Elton John AIDS Foundation, Inc.

We have audited the accompanying financial statements of Elton John AIDS Foundation, Inc. (the "Foundation") (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2018, and the related statements of activities, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elton John AIDS Foundation, Inc. as of December 31, 2018, 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.

Prior Period Financial Statements

The financial statements of the Foundation as of December 31, 2017, and for the year then ended, were audited by other auditors, whose report dated May 29, 2018 expressed an unmodified opinion on those financial statements. The summarized comparative information of functional expenses for the year ended December 31, 2017 was derived from those financial statements.

UHY LLP

New York, New York
April 30, 2019

FINANCIAL STATEMENTS

ELTON JOHN AIDS FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,068,152	\$ 5,948,218
Investments	14,341,415	6,798,000
Contributions receivable	502,776	1,146,415
Prepaid expenses	421,504	278,184
Total current assets	<u>22,333,847</u>	<u>14,170,817</u>
Contributions receivable, net of current portion	1,225,000	50,000
Property and equipment, net	46,116	3,484
Other assets	-	50,000
TOTAL ASSETS	<u>\$ 23,604,963</u>	<u>\$ 14,274,301</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 539,554	\$ 172,432
Related party payable	43,698	-
Deferred revenue on special events	1,558,406	918,390
Grants payable	3,378,635	1,360,311
Deferred rent	4,857	1,539
Total current liabilities	<u>5,525,150</u>	<u>2,452,672</u>
Grants payable, net of current portion	444,000	1,030,311
Deferred rent, net of current portion	3,270	8,127
TOTAL LIABILITIES	<u>5,972,420</u>	<u>3,491,109</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Net assets without donor restrictions	13,640,655	8,783,192
Net assets with donor restrictions	3,991,888	2,000,000
TOTAL NET ASSETS	<u>17,632,543</u>	<u>10,783,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,604,963</u>	<u>\$ 14,274,301</u>

See notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
STATEMENTS OF ACTIVITIES

	Years Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE						
Special events, net of \$861,835 and \$525,750 in related expenses in 2018 and 2017, respectively	\$ 9,788,268	\$ -	\$ 9,788,268	\$ 11,356,500	\$ -	\$ 11,356,500
Public support and grants	3,488,411	2,150,000	5,638,411	5,489,522	2,000,000	7,489,522
Net assets released from restrictions	158,112	(158,112)	-	-	-	-
Total operating revenue	<u>13,434,791</u>	<u>1,991,888</u>	<u>15,426,679</u>	<u>16,846,022</u>	<u>2,000,000</u>	<u>18,846,022</u>
EXPENSES						
Program services						
Grants and grant oversight	4,124,118	-	4,124,118	11,104,908	-	11,104,908
Public education/advocacy	1,101,180	-	1,101,180	1,296,601	-	1,296,601
Fund raising	2,947,098	-	2,947,098	3,860,488	-	3,860,488
Management and general	683,603	-	683,603	474,376	-	474,376
Total expenses	<u>8,855,999</u>	<u>-</u>	<u>8,855,999</u>	<u>16,736,373</u>	<u>-</u>	<u>16,736,373</u>
Change in net assets before nonoperating revenue (expense)	<u>4,578,792</u>	<u>1,991,888</u>	<u>6,570,680</u>	<u>109,649</u>	<u>2,000,000</u>	<u>2,109,649</u>
NONOPERATING REVENUE (EXPENSE)						
Investment Income	283,671	-	283,671	79,358	-	79,358
Loss from sale of assets	(5,000)	-	(5,000)	-	-	-
Total nonoperating revenue	<u>278,671</u>	<u>-</u>	<u>278,671</u>	<u>79,358</u>	<u>-</u>	<u>79,358</u>
CHANGE IN NET ASSETS	4,857,463	1,991,888	6,849,351	189,007	2,000,000	2,189,007
NET ASSETS, Beginning	8,783,192	2,000,000	10,783,192	8,594,185	-	8,594,185
NET ASSETS, Ending	\$ 13,640,655	\$ 3,991,888	\$ 17,632,543	\$ 8,783,192	\$ 2,000,000	\$ 10,783,192

See notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)

	Program Services			Support Services			2018	2017
	Grants and Grant Oversight	Public Education/ Advocacy	Program Services Total	Management and General	Fundraising	Support Services Total		
Grants and awards								
Domestic independent grants	\$ 3,105,325	\$ -	\$ 3,105,325	\$ -	\$ -	\$ -	\$ 3,105,325	\$ 9,292,416
International independent grants	-	-	-	-	-	-	-	976,143
Total grants and awards	<u>3,105,325</u>	<u>-</u>	<u>3,105,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,105,325</u>	<u>10,268,559</u>
Operating expenses								
Special events	-	606,536	606,536	-	2,426,142	2,426,142	3,032,678	3,534,261
Salaries	373,194	-	373,194	186,597	217,696	404,293	777,487	582,529
Communication and marketing	-	475,000	475,000	-	-	-	475,000	439,355
Travel and meetings	291,101	-	291,101	2,445	53,447	55,892	346,993	235,773
Office expenses	4,102	-	4,102	301,718	3,702	305,420	309,522	121,611
Professional fees	175,101	-	175,101	79,472	6,716	86,188	261,289	359,260
Rent	103,191	-	103,191	25,798	-	25,798	128,989	120,753
Bank charges	-	-	-	764	116,983	117,747	117,747	116,369
Employee benefits	41,892	-	41,892	20,946	24,437	45,383	87,275	86,918
Fundraising	-	19,644	19,644	-	78,578	78,578	98,222	785,118
Payroll taxes	22,028	-	22,028	11,014	12,850	23,864	45,892	32,092
Insurance	-	-	-	17,639	-	17,639	17,639	13,894
Telephone	8,184	-	8,184	1,637	6,547	8,184	16,368	11,848
Investment management	-	-	-	14,829	-	14,829	14,829	11,581
Taxes, licenses and fees	-	-	-	10,995	-	10,995	10,995	10,182
Total operating expenses	<u>1,018,793</u>	<u>1,101,180</u>	<u>2,119,973</u>	<u>673,854</u>	<u>2,947,098</u>	<u>3,620,952</u>	<u>5,740,925</u>	<u>6,461,544</u>
Depreciation	-	-	-	9,749	-	9,749	9,749	6,270
	<u>\$ 4,124,118</u>	<u>\$ 1,101,180</u>	<u>\$ 5,225,298</u>	<u>\$ 683,603</u>	<u>\$ 2,947,098</u>	<u>\$ 3,630,701</u>	<u>\$ 8,855,999</u>	<u>\$ 16,736,373</u>

See notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 6,849,351	\$ 2,189,007
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,749	6,270
Donated non-cash assets	-	(50,000)
Loss on sale of assets	5,000	-
Deferred rent	(1,539)	(1,682)
Changes in operating assets and liabilities:		
Contributions receivable	(531,361)	(1,021,762)
Prepaid expenses and other assets	(143,320)	(96,753)
Accounts payable and accrued expenses	367,122	104,667
Related party payable	43,698	-
Deferred revenue on special events	640,016	(350,110)
Grants payable	1,432,014	900,988
Net cash provided by operating activities	<u>8,670,730</u>	<u>1,680,625</u>
INVESTING ACTIVITIES		
Proceeds from sales of investments	28,755,061	32,560,838
Purchases of investments	(36,298,476)	(35,410,838)
Proceeds from sale of assets	45,000	-
Purchase of property and equipment	(52,381)	-
Net cash used in investing activities	<u>(7,550,796)</u>	<u>(2,850,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,119,934	(1,169,375)
CASH AND CASH EQUIVALENTS, Beginning	<u>5,948,218</u>	<u>7,117,593</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 7,068,152</u>	<u>\$ 5,948,218</u>

See notes to financial statements.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 — ORGANIZATION

The Elton John AIDS Foundation, Inc. (the "Foundation") is a 501(c)(3) not-for-profit organization incorporated in Georgia, which provides funding for care and needs of individuals infected with the human immunodeficiency virus ("HIV") and education related to HIV. The Foundation is supported primarily through public contributions. The Foundation is headquartered in New York, New York.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Foundation's significant accounting policies are as follows:

Basis of Accounting

The Foundation's financial statements are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Revenues are recorded in the year earned and expenses are recognized when the obligation is incurred.

Recently Adopted Accounting Standard

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, with early adoption permitted. The Foundation adopted ASU 2016-14 for the year ended December 31, 2018. Adoption of this ASU did not have a material impact on the financial statements.

The main provisions of this update, which amend the requirements for financial statements and notes in ASU 2016-14, Not-for-Profit Entities, require the Foundation to (1) present only two classes of net assets on the statements of financial position and statements of activities, including net assets with donor restrictions and net assets without donor restrictions, (2) provide enhanced disclosures about the composition of net assets with donor restrictions (Note 7) and how the Foundation manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date (Note 8).

Net Assets

In accordance with GAAP, the Foundation's net assets are classified and reported as follows:

Net assets without donor restriction which include all net assets that are not subject to donor-imposed stipulations.

Net assets with donor restriction which are comprised of assets whose use has been restricted by the donor for a particular purpose.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Foundation classifies all highly liquid investment instruments purchased with maturities of three months or less as cash equivalents. The Foundation maintains cash balances in one financial institution. At times balances on deposit with financial institution may exceed the Federal Depository Insurance Coverage. The Foundation has not experienced any loss in such accounts. At December 31, 2018, the uninsured balance was approximately \$5,073,000.

Investments

Investments are stated at fair value with changes in the fair value of investments recorded in investment income in the statements of activities. Realized gains and losses on sale of investment securities is determined based on the specific identification method and included in investment income in the statements of activities.

Donated investment securities are recorded as contributions at their estimated fair values at the date of donation.

Fair Value Measurements

The Foundation follows *Fair Value Measurements*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life.
- Level 3 Inputs are unobservable and cannot be corroborated by observable market data. Inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the inputs of the model.

At December 31, 2018, investments consisted of United States Treasury Bills. At December 31, 2017, investments consisted of certificates of deposits which matured in one to two years. All investments are Level 1 of the fair value hierarchy.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of five years. Leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life of the related asset or lease term.

Contributions Receivables

Contributions receivable are stated at fair value, which is computed as the estimated present value of expected future cash flows. The Foundation provides an allowance for doubtful pledges receivable, which is based upon review of outstanding receivables, historical collection information and existing economic conditions. Delinquent pledge receivables are written-off based on the specific circumstances of the donor making the pledge. As of December 31, 2018 and 2017, the Foundation had no allowance for doubtful contributions receivable.

Revenue Recognition

The Foundation recognizes contributions, including unconditional promises to give to the Foundation, as revenue in the period received or pledged. Conditional promises generally depend on future events occurring before the contributions is received, however, if the chance that such event will not occur is remote, the promise to give is accounted for as an unconditional promise.

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 event occurs, at which time revenue is recognized.

Concentration of Contributions

For the years ended December 31, 2018 and 2017, there was one donor which represented 14% and 11%, respectively, of total contributions revenue. At December 31, 2018 and 2017, there were two donors which represented 84% and 79%, respectively, of pledges receivable.

Charitable Donations and Grants

Charitable donations and grants are recognized in the period the donation/grant is approved, provided the donation/grant is not subject to future conditions. Conditional donations/grants generally depend on future events occurring before the donation/grant is given, however, if the chance that such event will not occur is remote, the donation/grant is accounted for as unconditional. Donations/grants that are expected to be paid in future years are recorded at the present value of the expected future payments.

Special Events

Revenue and expenses from special events are recorded on the accrual basis. Expenses related to special events, other than the cost of direct benefits to donors, are shown in the accompanying statements of activities as part of fundraising expense.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and Materials

The Foundation receives support for its operations and special events in the form of contributed professional services and other expenses which would typically need to be purchased if not contributed. Donated services and materials are reflected as contributions at their fair value when received.

Income Taxes

The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation believes that there are no uncertain tax positions that are material to the financial statements.

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 GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year financial statements presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events

For the purposes of preparing these financial statements the Foundation has evaluated subsequent events through April 30, 2019, the date which these financial statements were available for issuance.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 — INVESTMENTS

The fair value and cost of investment, by type, are consisted of the following:

	Years Ended December 31,			
	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Fixed Income				
United States treasury bills	\$ 14,341,415	\$ 14,341,680	\$ -	\$ -
Certificates of deposit	-	-	6,798,000	6,798,000
	<u>\$ 14,341,415</u>	<u>\$ 14,341,680</u>	<u>\$ 6,798,000</u>	<u>\$ 6,798,000</u>

The following schedule summarizes the investment income included in the statements of activities:

	Years Ended December 31,	
	2018	2017
Interest and dividends	\$ 198,320	\$ 79,734
Net realized gain	1,056	-
Net unrealized gain	84,295	(376)
	<u>\$ 283,671</u>	<u>\$ 79,358</u>

NOTE 4 — CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	December 31,	
	2018	2017
Due within one year	\$ 502,776	\$ 1,146,415
Due in one to five years	1,225,000	50,000
	<u>\$ 1,727,776</u>	<u>\$ 1,196,415</u>

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2018	2017
Office equipment	\$ 87,284	\$ 66,331
Leasehold improvements	28,428	-
Furniture and fixtures	24,217	21,217
Computer software	5,935	5,935
	145,864	93,483
Less accumulated depreciation	(99,748)	(89,999)
	<u>\$ 46,116</u>	<u>\$ 3,484</u>

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 — PROPERTY AND EQUIPMENT (Continued)

Depreciation expense amounted to \$9,749 and \$6,270 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6 — GRANTS PAYABLE

Grants payables consisted of the following:

	December 31,	
	2018	2017
Payable within one year	\$ 3,378,635	\$ 1,360,311
Payable within one to five years	444,000	1,030,311
	<u>\$ 3,822,635</u>	<u>\$ 2,390,621</u>

For the years ended December 31, 2018 and 2017, the total grant expenditures amounted to \$3,258,437 and \$10,268,559, of which \$0 and \$976,143, respectively, were disbursed to international organizations.

NOTE 7 — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of funds to support improving HIV prevention and treatment access and human rights of Black gay and bisexual men and transgender women in the United States (the "Initiative"). During the years ended December 31, 2018 and 2017, the Foundation received \$2,150,000 and \$2,000,000, respectively. The contributions are offset by expenses incurred specifically for the Initiative.

NOTE 8 — LIQUIDITY

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

Cash and cash equivalents	\$ 7,068,152
Investments	14,341,415
Contributions receivable-current	502,776
Available for general expenditures	<u>\$ 21,912,343</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a twelve month period, the Foundation considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

ELTON JOHN AIDS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 9 — COMMITMENTS AND CONTINGENCIES

The Foundation has a noncancelable office lease in New York which expires on June 30, 2020. The future minimum lease payments are subject to escalations, which are being expensed on a straight-line basis over the term of the lease. Rent expense for the years ended December 31, 2018 and 2017 amounted to \$128,989 and \$120,753, respectively.

Future minimum rental payments are as follows:

Year Ended	
December 31,	
2019	\$ 113,907
2020	57,795
	<u>\$ 171,702</u>

NOTE 10 — RELATED PARTY TRANSACTIONS

As of December 31, 2018 and 2017, the Foundation had payables due to Elton John AIDS Foundation – UK, an affiliate organization through the common founder, for expenses incurred on the Foundation's behalf in the amount \$43,698 and \$0, respectively.

NOTE 11 — RETIREMENT PLAN

The Foundation sponsors a 403(b) defined contribution retirement plan available for the benefit of its qualified employees. The 403(b) plan allows participants to make tax deferred contributions pursuant to section 403(b) of the Internal Revenue Code. The Foundation offers a Safe Harbor qualified matching contribution of 100% of employee contributions up to 6% of the employees' compensation. The Foundation made discretionary matching contributions for the fiscal years ended December 31, 2018 and 2017 of \$23,293 and \$26,485, respectively.

