

EISNERAMPER

ELTON JOHN AIDS FOUNDATION, INC.
(an entity of a sole member)

FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021



ELTON JOHN AIDS FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Elton John AIDS Foundation, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elton John AIDS Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets, and its cash flows for each of the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Foundation's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
May 30, 2023



ELTON JOHN AIDS FOUNDATION, INC.

Statements of Financial Position

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents (including restricted cash of \$1,791,274 in 2022)	\$ 7,235,241	\$ 3,670,630
Contributions receivable, net	3,181,895	1,584,237
Investments	15,542,298	11,717,894
Due from related party	-	11,890
Prepaid expenses and other assets	355,461	222,757
Right of use asset (see Note A[8])	<u>60,799</u>	<u>-</u>
Total current assets	26,375,694	17,207,408
Contributions receivable, net of current portion	2,205,724	1,000,000
Property and equipment, net	<u>87,370</u>	<u>125,051</u>
Total assets	<u>\$ 28,668,788</u>	<u>\$ 18,332,459</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 321,222	\$ 165,986
Related-party payable	2,557	-
Special event advances	2,053,500	1,404,980
Grants payable	6,154,151	6,075,800
Deferred rent obligation	-	11,790
Lease liability (see Note K[1])	<u>67,145</u>	<u>-</u>
Total current liabilities	8,598,575	7,658,556
Grants payable, net of current portion	4,219,651	1,353,129
Deferred rent, net of current portion	<u>-</u>	<u>5,289</u>
Total liabilities	<u>12,818,226</u>	<u>9,016,974</u>
Commitments (Note K)		
Net assets:		
Without donor restrictions	7,846,674	5,960,914
With donor restrictions	<u>8,003,888</u>	<u>3,354,571</u>
Total net assets	<u>15,850,562</u>	<u>9,315,485</u>
Total liabilities and net assets	<u>\$ 28,668,788</u>	<u>\$ 18,332,459</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Statement of Activities

Year Ended December 31, 2022

(with summarized financial information for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Public support and revenue:				
Contributions of financial assets	\$ 9,451,413	\$ 12,699,907	\$ 22,151,320	\$ 5,725,411
Contributions of nonfinancial assets	41,220	-	41,220	459,367
Special events (net of direct benefits to donor of \$2,230,444 in 2022)	<u>6,922,752</u>	<u>-</u>	<u>6,922,752</u>	<u>2,476,797</u>
Total public support and revenue before net assets released from restrictions	16,415,385	12,699,907	29,115,292	8,661,575
Net assets released from restrictions	<u>8,050,590</u>	<u>(8,050,590)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>24,465,975</u>	<u>4,649,317</u>	<u>29,115,292</u>	<u>8,661,575</u>
Operating expenses:				
Program services:				
Grants and grant oversight	18,417,337	-	18,417,337	8,355,962
Public education and advocacy	<u>1,929,680</u>	<u>-</u>	<u>1,929,680</u>	<u>1,125,718</u>
Total program services	<u>20,347,017</u>	<u>-</u>	<u>20,347,017</u>	<u>9,481,680</u>
Supporting services:				
Management and general	235,664	-	235,664	203,352
Fund-raising	<u>1,754,252</u>	<u>-</u>	<u>1,754,252</u>	<u>1,999,647</u>
Total supporting services	<u>1,989,916</u>	<u>-</u>	<u>1,989,916</u>	<u>2,202,999</u>
Total operating expenses	<u>22,336,933</u>	<u>-</u>	<u>22,336,933</u>	<u>11,684,679</u>
Change in net assets before non-operating activities	<u>2,129,042</u>	<u>4,649,317</u>	<u>6,778,359</u>	<u>(3,023,104)</u>
Non-operating activities:				
Investment loss, net	(237,062)	-	(237,062)	(78,820)
Foreign exchange loss	(6,220)	-	(6,220)	(6,199)
Canceled grant	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,335,500</u>
Change in net assets	1,885,760	4,649,317	6,535,077	(1,772,623)
Net assets, beginning of year	<u>5,960,914</u>	<u>3,354,571</u>	<u>9,315,485</u>	<u>11,088,108</u>
Net assets, end of year	<u>\$ 7,846,674</u>	<u>\$ 8,003,888</u>	<u>\$ 15,850,562</u>	<u>\$ 9,315,485</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

**Statement of Activities
Year Ended December 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Contributions and grants	\$ 2,180,722	\$ 3,544,689	\$ 5,725,411
Contributions of nonfinancial assets	459,367	-	459,367
Special events	<u>2,251,747</u>	<u>225,050</u>	<u>2,476,797</u>
Total public support and revenue before net assets released from restrictions	4,891,836	3,769,739	8,661,575
Net assets released from restrictions	<u>780,168</u>	<u>(780,168)</u>	<u>-</u>
Total public support and revenue	<u>5,672,004</u>	<u>2,989,571</u>	<u>8,661,575</u>
Operating expenses:			
Program services:			
Grants and grant oversight	8,355,962	-	8,355,962
Public education and advocacy	<u>1,125,718</u>	<u>-</u>	<u>1,125,718</u>
Total program services	<u>9,481,680</u>	<u>-</u>	<u>9,481,680</u>
Supporting services:			
Management and general	203,352	-	203,352
Fund-raising	<u>1,999,647</u>	<u>-</u>	<u>1,999,647</u>
Total supporting services	<u>2,202,999</u>	<u>-</u>	<u>2,202,999</u>
Total operating expenses	<u>11,684,679</u>	<u>-</u>	<u>11,684,679</u>
Change in net assets before non-operating activities	<u>(6,012,675)</u>	<u>2,989,571</u>	<u>(3,023,104)</u>
Non-operating activities:			
Investment loss, net	(78,820)	-	(78,820)
Foreign exchange loss	(6,199)	-	(6,199)
Canceled grant	<u>1,335,500</u>	<u>-</u>	<u>1,335,500</u>
Change in net assets	(4,762,194)	2,989,571	(1,772,623)
Net assets, beginning of year	<u>10,723,108</u>	<u>365,000</u>	<u>11,088,108</u>
Net assets, end of year	<u>\$ 5,960,914</u>	<u>\$ 3,354,571</u>	<u>\$ 9,315,485</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Statement of Functional Expenses Year Ended December 31, 2022

(with summarized financial information for the year ended December 31, 2021)

	Program Services			Supporting Services			Total	
	Grants and Grant Oversight	Public Education and Advocacy	Total Program Services	Management and General	Fund-raising	Total Supporting Services	2022	2021
Grants and awards	\$ 10,416,431	\$ -	\$ 10,416,431	\$ -	\$ -	\$ -	\$ 10,416,431	\$ 4,027,173
Special events:								
Staging, décor, sound and Lighting	-	-	-	-	1,981,122	1,981,122	1,981,122	895,312
Catering and rentals	-	-	-	-	371,714	371,714	371,714	-
Hotel and travel	-	-	-	-	-	-	-	226,279
Staffing and event management	-	-	-	-	321,985	321,985	321,985	131,805
Artist costs	-	-	-	-	68,530	68,530	68,530	184,403
Security and valet	-	-	-	-	190,681	190,681	190,681	-
Other event costs	-	-	-	-	149,959	149,959	149,959	51,100
Salaries and employee benefits	483,422	432,995	916,417	13,535	198,054	211,589	1,128,006	838,191
Contractual services	175,772	137,882	313,654	-	67,151	67,151	380,805	653,490
Recruitment and training costs	11	8,648	8,659	34	4,548	4,582	13,241	37,271
Bank fees and charges	1,213	54,703	55,916	277	29,542	29,819	85,735	8,040
Professional fees	101,160	683,370	784,530	2,717	337,320	340,037	1,124,567	471,845
System software and hardware	73,020	49,673	122,693	4,993	23,937	28,930	151,623	134,750
Travel and meetings	40,165	135,342	175,507	21	66,641	66,662	242,169	7,302
Postage and delivery	178	20,343	20,521	482	11,114	11,596	32,117	18,147
Office supplies, equipment and maintenance	3,043	3,880	6,923	6,943	3,016	9,959	16,882	6,244
Advertising and publicity	85,049	315,217	400,266	-	93,277	93,277	493,543	146,625
Insurance	-	34,673	34,673	-	18,670	18,670	53,343	39,204
Telephone and internet	1,117	1,186	2,303	3,352	1,425	4,777	7,080	11,354
Subscriptions and miscellaneous expenses	117	4,073	4,190	185	2,034	2,219	6,409	591
Rent, rates and office cleaning	24,605	14,362	38,967	73,816	28,483	102,299	141,266	119,795
Depreciation and amortization	12,034	33,333	45,367	784	15,493	16,277	61,644	80,558
Bad debt expense	-	-	-	128,525	-	128,525	128,525	95,200
Subtotal expenses	11,417,337	1,929,680	13,347,017	235,664	3,984,696	4,220,360	17,567,377	8,184,679
Grants to The Elton John Aids Foundation UK (sole member of the Foundation)	7,000,000	-	7,000,000	-	-	-	7,000,000	3,500,000
Total expenses	18,417,337	1,929,680	20,347,017	235,664	3,984,696	4,220,360	24,567,377	11,684,679
Less: direct benefits to donors	-	-	-	-	(2,230,444)	(2,230,444)	(2,230,444)	-
Total expenses per statements of activities	\$ 18,417,337	\$ 1,929,680	\$ 20,347,017	\$ 235,664	\$ 1,754,252	\$ 1,989,916	\$ 22,336,933	\$ 11,684,679

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Statement of Functional Expenses Year Ended December 31, 2021

	Program Services			Supporting Services			Total
	Grants and Grant Oversight	Public Education and Advocacy	Total Program Services	Management and General	Fund-raising	Total Supporting Services	
Grants and awards	\$ 3,868,078	\$ 159,095	\$ 4,027,173	\$ -	\$ -	\$ -	\$ 4,027,173
Special events:							
Staging, décor, sound and lighting	-	-	-	-	895,312	895,312	895,312
Catering and rentals	-	-	-	-	-	-	-
Hotel and travel	-	-	-	-	226,279	226,279	226,279
Staffing and event management	-	-	-	-	131,805	131,805	131,805
Artist costs	-	-	-	-	184,403	184,403	184,403
Security and valet	-	-	-	-	-	-	-
Other event costs	-	-	-	-	51,100	51,100	51,100
Salaries and employee benefits	397,469	277,752	675,221	10,058	152,912	162,970	838,191
Contractual services	359,976	188,381	548,357	2,773	102,360	105,133	653,490
Recruitment and training costs	-	27,718	27,718	-	9,553	9,553	37,271
Bank fees and charges	355	4,982	5,337	15	2,688	2,703	8,040
Professional fees	99,553	253,875	353,428	8,094	110,323	118,417	471,845
System software and hardware	18,236	70,040	88,276	7,781	38,693	46,474	134,750
Travel and meetings	4,691	1,355	6,046	395	861	1,256	7,302
Postage and delivery	614	9,800	10,414	1,842	5,891	7,733	18,147
Office supplies, equipment and maintenance	1,151	318	1,469	3,453	1,322	4,775	6,244
Advertising and publicity	60,161	59,355	119,516	-	27,109	27,109	146,625
Insurance	9,162	19,527	28,689	-	10,515	10,515	39,204
Telephone and internet	357	7,625	7,982	1,070	2,302	3,372	11,354
Subscriptions and miscellaneous expenses	166	268	434	10	147	157	591
Rent, rates and office cleaning	23,959	-	23,959	71,877	23,959	95,836	119,795
Depreciation and amortization	12,034	45,627	57,661	784	22,113	22,897	80,558
Bad debt expense	-	-	-	95,200	-	95,200	95,200
Subtotal expenses	4,855,962	1,125,718	5,981,680	203,352	1,999,647	2,202,999	8,184,679
Grants to The Elton John Aids Foundation UK (sole member of the Foundation)	<u>3,500,000</u>	-	<u>3,500,000</u>	-	-	-	<u>3,500,000</u>
Total expenses per statements of activities	<u>\$ 8,355,962</u>	<u>\$ 1,125,718</u>	<u>\$ 9,481,680</u>	<u>\$ 203,352</u>	<u>\$ 1,999,647</u>	<u>\$ 2,202,999</u>	<u>\$ 11,684,679</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 6,535,077	\$ (1,772,623)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	61,644	80,558
Realized and unrealized loss on investments	375,906	172,999
Donated securities	(946,545)	-
Proceeds from donated securities	912,407	
Canceled grant	-	(1,335,500)
Bad debt expense	128,525	95,200
Non-cash lease amortization	120,820	-
Deferred rent	-	3,704
Changes in:		
Contributions receivable, net	(2,931,907)	(2,441,543)
Due from related party	11,890	(11,890)
Prepaid expenses and other assets	(132,704)	(181,026)
Accounts payable and accrued liabilities	155,236	38,379
Related-party payable	2,557	(415,886)
Special event advances	648,520	1,403,601
Lease liability	(131,553)	-
Grants payable, net	2,944,873	4,403,997
Net cash provided by operating activities	<u>7,754,746</u>	<u>39,970</u>
Cash flows from investing activities:		
Proceeds from sale of investments	20,474,952	2,262,492
Purchases of investments	(24,641,124)	(10,154,711)
Purchases of property and equipment	(23,963)	(82,435)
Net cash used in investing activities	<u>(4,190,135)</u>	<u>(7,974,654)</u>
Net change in cash, cash equivalents and restricted cash	3,564,611	(7,934,684)
Cash and cash equivalents, beginning of year	<u>3,670,630</u>	<u>11,605,314</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 7,235,241</u>	<u>\$ 3,670,630</u>
Supplemental disclosures of cash flow information:		
Donated goods and services	<u>\$ 41,220</u>	<u>\$ 459,367</u>
Noncash lease liabilities arising from obtaining right-of-use assets	<u>\$ 198,698</u>	<u>\$ -</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] The Organization:

The Elton John AIDS Foundation, Inc. (the "Foundation"), is a not-for-profit organization incorporated in 1992 in Georgia. The mission of the Foundation is to provide funding for the care and needs of individuals infected with the human immunodeficiency virus ("HIV") and education related to HIV. The Foundation is one of the leading AIDS organizations in the world and represents a powerful force working towards the end of the AIDS epidemic. The Foundation is headquartered in New York, New York.

Effective December 14, 2020, the Foundation revised its governing documents, including its Articles of Incorporation and Bylaws, such that The Elton John Aids Foundation ("EJAF UK") is the sole member of the Foundation.

The Foundation qualifies as a charitable organization as defined by Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is exempt from federal income taxes under Section 501(a) of the Code and from state and local income taxes under comparable laws. Since the Foundation is publicly supported, contributions to the Foundation qualify for the maximum charitable contribution deduction under the Code.

[2] Basis of accounting:

The financial statements of the Foundation have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires the Foundation's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, public support and revenue, other support and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash and cash equivalents:

The Foundation considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents for financial reporting purposes, other than the cash equivalents that are included as part of the investment portfolio. Included in cash and cash equivalents for 2022 is \$1,791,274 which is restricted for disbursements under a specific grant agreement, in accordance with the provisions of the subcontract.

[5] Investments:

Investments include U.S. government securities with readily determinable fair values which have been reported at their fair value as of year-end in the statements of financial position, as well as cash equivalents.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in net assets without donor restriction, unless their use is restricted through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments: (continued)

The Foundation's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term, and that such changes could materially affect the amounts reported in the financial statements.

Investment expenses include the services of investment managers and custodians. The balances of investment management fees disclosed in Note C are those specific fees charged by the Foundation's various investment managers in each year; however, they do not include those fees that are embedded in various other investment transactions.

Donated securities are recorded at their estimated fair values, or by their net asset values as determined by the Foundation's management on the date of donation. The Foundation's policy is to sell donated securities immediately, and, accordingly, for purposes of the statements of cash flows, donated securities and, when received, the proceeds generated from their sale are included as operating activities.

[6] Property and equipment:

Property and equipment are stated at their original costs at dates of acquisition, or, if contributed, at their fair values at the dates of donation, less accumulated depreciation and amortization. The Foundation capitalizes computer hardware and software, furniture and fixtures, and leasehold improvements with a cost of \$9,100 or more, whereas minor costs of repair and maintenance are expensed as incurred. Depreciation of computer hardware and software and furniture and fixtures is provided using the straight-line method over the estimated useful lives of the assets of five years. Leasehold improvements are amortized over the remaining lease term, or useful life, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and when triggering events indicate that the fair value of the long-lived assets may be less than the carrying value, recognizes any impairment in the year of determination. There were no triggering events occurring which would impact property and equipment requiring management to test for, or adjust for, impairment losses during 2022 or 2021. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Grants payable:

The Foundation records awards of unconditional grants as expenses and liabilities after approval by the Board of Directors, based upon: (i) the recommendations of the Grants Panel, with the guidance and input of the Foundation's Grant Support Office; and (ii) the availability of funding. Grants which are terminated prior to completion and returned to the Foundation or grants which have been previously approved, but then canceled, are reported as non-operating activities. Unconditional grants not expected to be paid within the following year are reported at their discounted present values.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Leases:

The Foundation determines if an arrangement is a lease at inception. For the Foundation's operating leases, a right-of-use ("ROU") asset represents the Foundation's right to use an underlying asset for the lease term and an operating lease liability represents an obligation to make lease payments arising from the lease. The ROU asset and lease liability are recognized at the lease commencement date based on the present value of lease payments over the lease term. Since the Foundation's lease agreements do not provide an implicit interest rate, the Foundation uses a risk-free rate based on the information available at the commencement date in determining the present value of the lease payments. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms. Variable lease costs, such as operating costs, are expensed as incurred.

[9] Net assets:

(i) *Net assets without donor restrictions:*

The Foundation's net assets without donor restrictions represent those resources that are available for current operations, as there are no restrictions by donors regarding their use.

(ii) *Net assets with donor restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor-imposed restrictions, such as specific purposes and/or a specified period of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statements of activities as "net assets released from restrictions".

[10] Revenue recognition:

(i) *Contributions, grants and pledges:*

Contributions to the Foundation are recognized as revenue upon the receipt of cash, unconditional pledges, or other assets. Contributions are reported as "with donor restrictions" if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recognized when the donor's conditions have been met by requisite actions of the Foundation's management or necessary events have taken place. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. The Foundation's management periodically assesses the collectability of its outstanding pledges using its judgment of potential defaults. This process considers factors such as prior collection history, the type of contribution and the nature of fund-raising activity, and management provides allowances for anticipated losses, if any, when necessary.

(ii) *Special events:*

Gross proceeds paid by attendees at special events held as fundraising activities represent contribution revenue, as well as the payment of the direct costs of the benefits received by the attendee at the event, which are considered exchange revenue. Special-event revenue is reported net of the direct benefits to donors. The exchange portion of the cash received is recognized as revenue when the special event takes place. Special event proceeds for a future year's event are deferred and recognized when the event takes place, as it is the Foundation's policy that such funds would be refunded if the event were to be canceled. As all events were virtual during 2021 as such, there were no direct benefits to donors reported in that year.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Revenue recognition: (continued)

(iii) Donated goods and services:

From time-to-time, the Foundation receives various forms of gifts-in-kind, which are contributions of nonfinancial assets, including donated special event goods and legal services. These types of contributions are reported at their estimated fair value on the date of receipt and reported as expenses when utilized. Donated goods are valued based upon estimates of fair value that would be received for selling the goods in their principal marketplace considering their condition and utility for use at the time the goods are contributed by the donor. It is the Foundation's policy that contributions of nonfinancial assets are only utilized within operations to support the Foundation's mission and not monetized.

For recognition of donated services, such services must: (i) create or enhance non-financial assets; (ii) typically need to be acquired, if not provided by donation; (iii) require a specialized skill; and (iv) be provided by individuals possessing these skills.

[11] Measure of operations:

The Foundation includes in its definition of operations, all public support and revenue and expenses that are an integral part of its programs and supporting activities. Net investment (losses) gains, foreign currency exchange, and cancelation of grants awarded in prior years are recorded as part of the Foundation's non-operating activities.

[12] Advertising costs:

Advertising costs are accounted for as an expense as they are incurred. Advertising expenses for 2022 and 2021 was approximately \$494,000 and \$147,000, respectively.

[13] Functional allocation of expenses:

The costs of providing the Foundation's various program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present expenses by functional and natural classifications. Accordingly, direct costs have been functionalized within the programs and supporting services, based on the nature of the expenses. Indirect costs including salaries and employee benefits, occupancy costs and depreciation and amortization have been allocated on the basis of time spent among employees.

[14] Income tax uncertainties:

The Foundation is subject to the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for potential uncertainty in income-tax obligations. Because of the Foundation's general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Foundation's financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Adoption of accounting principles:

(i) *Presentation and disclosures by not-for-profit entities for contributed nonfinancial assets:*

In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. For each category of contributed nonfinancial assets recognized, the not-for-profit organization will need to disclose: (i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period; if utilized, a description of the programs or other activities in which those assets were used; (ii) the not-for-profit’s policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; and (iv) the valuation and techniques and inputs used to arrive at a fair value measure, if it is a market in which the recipient entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU have been applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Analysis of the various provisions of this standard resulted in no significant changes in the way the Foundation recognizes contributed nonfinancial assets and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

(ii) *Leases:*

In February 2016, the FASB issued ASU 2016-02, *Leases*, to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the statements of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Foundation elected to adopt ASU 2016-02 as of January 1, 2022, on a prospective basis.

The Foundation has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Foundation accounted for its existing operating lease as an operating lease under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of June 30, 2019) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

The new lease standard also provides practical expedients for an entity’s ongoing accounting. The Foundation elected the short-term lease recognition exemption, under which the Foundation will not recognize ROU or lease liabilities on new or existing short-term leases. Short-term leases are defined as those with a term of 12 months or less. The Foundation also elected the practical expedient to not separate lease and non-lease components for certain classes of assets.

As a result of the adoption of the new lease accounting guidance, the Foundation recognized on January 1, 2022 (i) a lease liability of \$198,698 which represented the present value of the remaining lease payments of \$199,932 discounted using a risk-free rate of 0.78%, and (ii) a ROU asset of \$181,619. This standard did not have a material impact on the Foundation’s statements of financial position or cash flows from operations and had no impact on the Foundation’s statements of activities and changes in net assets. The most significant impact was the recognition of a ROU asset and lease obligation for the operating lease for the year ended December 31, 2022.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE A - THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[16] Reclassification:

Certain amounts in the 2021 financial statements have been reclassified to conform to the presentation in the accompanying 2022 financial statements.

[17] Subsequent events:

The Foundation evaluated subsequent events through May 30, 2023, the date on which the financial statements were available to be issued.

NOTE B - CONTRIBUTIONS AND OTHER RECEIVABLES

[1] Contributions receivable:

At each year-end, net uncollected pledges of contributions and grants made to the Foundation are estimated to be received as follows:

	December 31,	
	<u>2022</u>	<u>2021</u>
Less than one year	\$ 3,181,895	\$ 1,589,237
One to four years	<u>2,500,000</u>	<u>1,000,000</u>
	5,681,895	2,589,237
Reduction of pledges due in excess of one year to present value at a discount rate of 4%	<u>(294,276)</u>	-
	5,387,619	2,589,237
Less: allowance for doubtful accounts	<u>-</u>	<u>(5,000)</u>
	<u>\$ 5,387,619</u>	<u>\$ 2,584,237</u>

[2] Other receivables:

Other receivables consist of accrued interest and other amounts due to the Foundation. All amounts are fully collectible, and accordingly, no allowance for doubtful accounts has been established.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE C - INVESTMENTS

At each year-end, investments consisted of the following:

	December 31,	
	2022	2021
Invested cash equivalents	\$ 5,715,348	\$ -
U.S. treasury notes	945,820	1,295,474
U.S. government and agency obligations	<u>8,881,130</u>	<u>10,422,420</u>
	<u>\$ 15,542,298</u>	<u>\$ 11,717,894</u>

At December 31, 2022, concentrations of the Foundation's investments in excess of 10% of the fair value of its portfolio included approximately 33% held in two separate cash equivalent accounts. There were no such concentrations for the year ended December 31, 2021.

During each year-end, investment returns consisted of the following:

	December 31,	
	2022	2021
Interest and dividends	\$ 155,175	\$ 109,816
Investment advisory fees	<u>(16,331)</u>	<u>(15,637)</u>
	<u>138,844</u>	<u>94,179</u>
Realized (losses) gains	(34,129)	272
Unrealized losses	<u>(341,777)</u>	<u>(173,271)</u>
	<u>(375,906)</u>	<u>(172,999)</u>
	<u>\$ (237,062)</u>	<u>\$ (78,820)</u>

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments at the reporting date.
- Level 2: Valuations are based on: (i) quoted prices for similar investments in active markets; (ii) quoted prices for those investments, or similar investments, in markets that are not active; or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where: (i) there is little, if any, market activity for the investments; or (ii) the investments cannot be independently valued.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE C - INVESTMENTS (CONTINUED)

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one fair-value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The following tables summarize the fair values of the Foundation's investments at each year-end in accordance with the ASC Topic 820 valuation levels:

	December 31, 2022		
	Level 1	Level 2	Total
Invested cash equivalents	\$ 5,715,348	\$ -	\$ 5,715,348
U.S. treasury notes	945,820	-	945,820
U.S. government and agency obligations	-	8,881,130	8,881,130
	<u>\$ 6,661,168</u>	<u>\$ 8,881,130</u>	<u>\$ 15,542,298</u>

	December 31, 2021		
	Level 1	Level 2	Total
U.S. treasury bills	\$ 1,295,474	\$ -	\$ 1,295,474
U.S. government and agency obligations	-	10,422,420	10,422,420
	<u>\$ 1,295,474</u>	<u>\$ 10,422,420</u>	<u>\$ 11,717,894</u>

NOTE D - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	December 31,	
	2022	2021
Office equipment and software	\$ 193,135	\$ 299,297
Furniture and fixtures	9,122	9,122
Leasehold improvements	-	28,428
	202,257	336,847
Less: accumulated depreciation and amortization	(114,887)	(211,796)
	<u>\$ 87,370</u>	<u>\$ 125,051</u>

During the years ended December 31, 2022 and 2021, the Foundation wrote off fully-depreciated furniture and fixtures no longer in use of \$158,553 and \$24,217, respectively.

ELTON JOHN AIDS FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2022 and 2021**

NOTE E - GRANTS PAYABLE

At each year-end, grants payable are expected to be paid as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
In less than one year	\$ 6,154,151	\$ 6,075,800
In one to four years	<u>4,539,245</u>	<u>1,353,129</u>
Grants payable	10,693,396	7,428,929
Reduction of grants payable in excess of one year to present value at discount rate of 4%	<u>(319,594)</u>	<u>-</u>
Grants payable, net, end of year	<u>\$ 10,373,802</u>	<u>\$ 7,428,929</u>

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

At each year-end, net assets with donor restrictions were restricted for the following:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Purpose restricted:		
USA*	\$ 2,912,801	\$ -
Walmart Partnership*	-	3,000,000
AIDSfree Campaign – U.S. South*	-	129,521
LGBT	1,000,000	-
RADIAN	<u>35,363</u>	<u>-</u>
	3,948,164	3,129,521
Time-restricted for future periods	<u>4,055,724</u>	<u>225,050</u>
	<u>\$ 8,003,888</u>	<u>\$ 3,354,571</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

During each year, net assets with donor restrictions were released from restrictions as follows:

	December 31,	
	2022	2021
Purpose restricted:		
Ukraine Humanitarian	\$ 4,000,000	\$ -
RADIAN	2,743,041	-
Walmart Partnership*	811,501	-
Young People	200,000	-
Young People in Cote D'Ivoire	-	473,180
AIDSfree Campaign – U.S. South*	70,998	179,187
COVID Emergency Fund	-	65,000
U-Test Initiative	-	62,801
	<u>7,825,540</u>	<u>780,168</u>
Expiration of time restrictions	<u>225,050</u>	<u>-</u>
	<u>\$ 8,050,590</u>	<u>\$ 780,168</u>

*At December 31, 2022, the "AIDSfree Campaign – U.S. South" and the "Walmart Partnership" funds were combined and reported as "USA" as these funds share the same objectives and donor restrictions, to provide national and local initiatives to increase access to HIV related resources and education in the U.S.

NOTE G - RETIREMENT PLAN

The Foundation sponsors a 403(b) defined-contribution retirement plan (the "Plan"), for the benefit of its qualified employees. The 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 years ended December 31, 2022 and 2021 of \$51,396 and \$46,232, respectively.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE H - DONATED GOODS AND SERVICES

The tables below disclose the in-kind donations received in each year, as well as the valuation techniques and inputs, the existence of donor restrictions, and the utilization in accordance with ASU 2020-07:

Year Ended December 31, 2022

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Donated fund-raising catering	\$25,441	Used for the benefit of attendees at the special event	None	Reflected at market price in the principal market where consumed.
Donated legal services	\$15,779	Various administrative matters	N/A	Contributed legal services are considered to reflect fair market rates for services performed.

Year Ended December 31, 2021

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Donated fund-raising venue	\$226,279	Used for the benefit of attendees at the special event	None	Reflected at market price in the principal market where consumed.
Donated event streaming services	\$200,000	Used for the benefit of attendees at the special event	N/A	Reflected at market price in the principal market where consumed.
Donated legal services	\$24,332	Various administrative matters	N/A	Contributed legal services are considered to reflect fair market rates for services performed.
Donated information technology services	\$8,756	Consumed in mission and various administrative matters	N/A	Reflected at market prices in the various principal markets where consumed.

Volunteers:

A substantial number of Board members and volunteers have donated significant amounts of their time and support through fund-raising and participation in global events, in furtherance of the Foundation's mission. The value of this donated volunteer time is not reflected in the financial statements, as it does not meet the criteria for recognition under generally accepted accounting principles.

ELTON JOHN AIDS FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2022 and 2021**

NOTE I - RELATED-PARTY TRANSACTIONS

[1] Grants:

During 2022 and 2021, the Foundation made grants to EJAF UK, its sole member, totaling \$7,000,000 and \$3,500,000, respectively.

[2] Transactions with EJAF UK:

In addition to the aforementioned grants, the Foundation and EJAF UK occasionally incur expenses on each other's behalf. As of December 31, 2022 and 2021, the net balances due (to)/from EJAF UK were (\$2,557) and \$11,890, respectively.

In 2021, the Foundation reimbursed EJAF UK for payroll and related benefits for the staff who performed functions related to the Foundation's activities of approximately \$242,000. There were no such reimbursements in 2022.

NOTE J - CONCENTRATIONS

[1] During 2022, the Foundation received 25% of its contributions of financial assets from two donors. During 2021, the Foundation received 63% of its contributions of financial assets from two donors.

[2] The Foundation maintains its cash in bank accounts in amounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management monitors the risk associated with concentrations on an ongoing basis.

NOTE K - COMMITMENTS

[1] Lease commitments:

The Foundation has a noncancelable; operating lease agreement for office space located in Manhattan. The lease provides for escalation charges through the lease term, which is set to expire in June 2023. The aggregate minimum lease payments are currently being amortized using the straight-line method over the term of the lease.

Information relating to the "lease costs", which includes all costs during the period associated with an operating lease, as well as the costs related to variable lease components:

<u>Year Ending December 31,</u>	<u>Principal</u>
2023	\$ 67,298
Less: amount representing interest	<u>(153)</u>
Amount reported on statements of financial position	<u>\$ 67,145</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2022 and 2021

NOTE K - COMMITMENTS (CONTINUED)

[1] Lease commitments: (continued)

The table below presents additional information related to the Foundation's lease for the year ended December 31, 2022:

Weighted average remaining lease term:	
Operating lease	0.5 years
Weighted average discount rate:	
Operating lease	0.78%

[2] Other contracts:

In the normal course of business, the Foundation enters into various contracts and agreements for professional and other services, which are typically renewable on a year-to-year basis.

NOTE L - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Foundation's financial assets as of the statements of financial position date, reduced by amounts not available for general use within one year of the date of the statements of financial position because of donor-imposed restrictions:

	December 31,	
	2022	2021
Cash and cash equivalents	\$ 7,235,241	\$ 3,670,630
Contributions receivable	5,387,619	1,584,237
Due from related party	-	11,890
Investments	<u>15,542,298</u>	<u>11,717,894</u>
Total financial assets available within one year	<u>28,165,158</u>	<u>16,984,651</u>
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with:		
Purpose restrictions	(3,948,164)	(3,129,521)
Time-restricted for future periods	<u>(2,205,724)</u>	<u>(225,050)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,011,270</u>	<u>\$ 13,630,080</u>

Liquidity policy:

As part of the Foundation's liquidity management, it maintains a sufficient level of operating cash to be available as its general expenditures, grants, liabilities and other obligations come due.