

EISNERAMPER

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

FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020



ELTON JOHN AIDS FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Elton John AIDS Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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, 2021, 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.

Basis for Opinion

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

Prior Period Financial Statements

The financial statements of Elton John AIDS Foundation, Inc. as of and for the year ended December 31, 2020, were audited by other auditors, whose report, dated March 3, 2021, expressed an unmodified 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 issued.



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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 26, 2022



ELTON JOHN AIDS FOUNDATION, INC.

Statements of Financial Position

	December 31,	
	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,670,630	\$ 11,605,314
Contributions receivable, net	1,584,237	237,894
Investments	11,717,894	3,998,674
Due from related party	11,890	-
Prepaid expenses and other assets	<u>222,757</u>	<u>41,731</u>
Total current assets	17,207,408	15,883,613
Contributions receivable, net of current portion	1,000,000	
Property and equipment, net	<u>125,051</u>	<u>123,174</u>
Total assets	<u>\$ 18,332,459</u>	<u>\$ 16,006,787</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 165,986	\$ 127,607
Related-party payable	-	415,886
Special event advances	1,404,980	1,379
Grants payable	6,075,800	4,313,432
Deferred rent	<u>11,790</u>	<u>3,703</u>
Total current liabilities	7,658,556	4,862,007
Grants payable, net of current portion	1,353,129	47,000
Deferred rent, net of current portion	<u>5,289</u>	<u>9,672</u>
Total liabilities	<u>9,016,974</u>	<u>4,918,679</u>
Commitments and other uncertainty (Note K)		
Net assets:		
Without donor restrictions	5,960,914	10,723,108
With donor restrictions	<u>3,354,571</u>	<u>365,000</u>
Total net assets	<u>9,315,485</u>	<u>11,088,108</u>
Total liabilities and net assets	<u>\$ 18,332,459</u>	<u>\$ 16,006,787</u>

ELTON JOHN AIDS FOUNDATION, INC.

Statement of Activities

Year Ended December 31, 2021

(with summarized financial information for the year ended December 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Public support and revenue:				
Contributions of financial assets	\$ 845,222	\$ 3,544,689	\$ 4,389,911	\$ 4,531,544
Contributions of nonfinancial assets	459,367	-	459,367	855,966
Special events	<u>2,251,747</u>	<u>225,050</u>	<u>2,476,797</u>	<u>5,330,674</u>
Total public support and revenue before net assets released from restrictions	3,556,336	3,769,739	7,326,075	10,718,184
Net assets released from restrictions	<u>780,168</u>	<u>(780,168)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>4,336,504</u>	<u>2,989,571</u>	<u>7,326,075</u>	<u>10,718,184</u>
Operating expenses:				
Program services:				
Grants and grant oversight	7,020,462	-	7,020,462	4,950,519
Public education and advocacy	<u>1,125,718</u>	<u>-</u>	<u>1,125,718</u>	<u>1,083,059</u>
Total program services	<u>8,146,180</u>	<u>-</u>	<u>8,146,180</u>	<u>6,033,578</u>
Supporting services:				
Management and general	203,352	-	203,352	318,634
Fund-raising	<u>1,999,647</u>	<u>-</u>	<u>1,999,647</u>	<u>3,915,972</u>
Total supporting services	<u>2,202,999</u>	<u>-</u>	<u>2,202,999</u>	<u>4,234,606</u>
Total operating expenses	<u>10,349,179</u>	<u>-</u>	<u>10,349,179</u>	<u>10,268,184</u>
Change in net assets before non-operating activities	<u>(6,012,675)</u>	<u>2,989,571</u>	<u>(3,023,104)</u>	<u>450,000</u>
Non-operating activities:				
Investment (loss) income, net	(78,820)	-	(78,820)	155,618
Foreign exchange loss	(6,199)	-	(6,199)	(382)
Canceled grant	<u>1,335,500</u>	<u>-</u>	<u>1,335,500</u>	<u>-</u>
Change in net assets	(4,762,194)	2,989,571	(1,772,623)	605,236
Net assets, beginning of year	<u>10,723,108</u>	<u>365,000</u>	<u>11,088,108</u>	<u>10,482,872</u>
Net assets, end of year	<u>\$ 5,960,914</u>	<u>\$ 3,354,571</u>	<u>\$ 9,315,485</u>	<u>\$ 11,088,108</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

**Statement of Activities
Year Ended December 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Contributions and grants	\$ 2,102,501	\$ 2,429,043	\$ 4,531,544
Contributions of nonfinancial assets	855,966	-	855,966
Special events	<u>5,330,674</u>	<u>-</u>	<u>5,330,674</u>
Total public support and revenue before net assets released from restrictions	8,289,141	2,429,043	10,718,184
Net assets released from restrictions	<u>2,194,043</u>	<u>(2,194,043)</u>	<u>-</u>
Total public support and revenue	<u>10,483,184</u>	<u>235,000</u>	<u>10,718,184</u>
Operating expenses:			
Program services:			
Grants and grant oversight	4,950,519	-	4,950,519
Public education and advocacy	<u>1,083,059</u>	<u>-</u>	<u>1,083,059</u>
Total program services	<u>6,033,578</u>	<u>-</u>	<u>6,033,578</u>
Supporting services:			
Management and general	318,634	-	318,634
Fund-raising	<u>3,915,972</u>	<u>-</u>	<u>3,915,972</u>
Total supporting services	<u>4,234,606</u>	<u>-</u>	<u>4,234,606</u>
Total operating expenses	<u>10,268,184</u>	<u>-</u>	<u>10,268,184</u>
Change in net assets before non-operating activities	<u>215,000</u>	<u>235,000</u>	<u>450,000</u>
Non-operating activities:			
Investment income, net	155,618	-	155,618
Foreign exchange loss	<u>(382)</u>	<u>-</u>	<u>(382)</u>
Change in net assets	370,236	235,000	605,236
Net assets, beginning of year	<u>10,352,872</u>	<u>130,000</u>	<u>10,482,872</u>
Net assets, end of year	<u>\$ 10,723,108</u>	<u>\$ 365,000</u>	<u>\$ 11,088,108</u>

ELTON JOHN AIDS FOUNDATION, INC.

Statement of Functional Expenses Year Ended December 31, 2021

(with summarized financial information for the year ended 2020)

	Program Services			Supporting Services			Total	
	Grants and Grant Oversight	Public Education and Advocacy	Total Program Services	Management and General	Fund-raising	Total Supporting Services	2021	2020
Grants and awards	\$ 2,532,578	\$ 159,095	\$ 2,691,673	\$ -	\$ -	\$ -	\$ 2,691,673	\$ 4,615,903
Special events:								
Staging, décor, sound and lighting	-	-	-	-	895,312	895,312	895,312	1,669,542
Catering and rentals	-	-	-	-	-	-	-	370,959
Hotel and travel	-	-	-	-	226,279	226,279	226,279	855,966
Staffing and event management	-	-	-	-	131,805	131,805	131,805	211,661
Artist costs	-	-	-	-	184,403	184,403	184,403	39,901
Security and valet	-	-	-	-	-	-	-	163,636
Other event costs	-	-	-	-	51,100	51,100	51,100	158,898
Salaries and employee benefits	397,469	277,752	675,221	10,058	152,912	162,970	838,191	927,264
Contractual services	359,976	188,381	548,357	2,773	102,360	105,133	653,490	240,533
Recruitment and training costs	-	27,718	27,718	-	9,553	9,553	37,271	24,366
Bank fees and charges	355	4,982	5,337	15	2,688	2,703	8,040	1,403
Professional fees	99,553	253,875	353,428	8,094	110,323	118,417	471,845	336,073
System software and hardware	18,236	70,040	88,276	7,781	38,693	46,474	134,750	56,546
Travel and meetings	4,691	1,355	6,046	395	861	1,256	7,302	69,007
Postage and delivery	614	9,800	10,414	1,842	5,891	7,733	18,147	431
Office supplies, equipment and maintenance	1,151	318	1,469	3,453	1,322	4,775	6,244	7,390
Advertising and publicity	60,161	59,355	119,516	-	27,109	27,109	146,625	123,245
Insurance	9,162	19,527	28,689	-	10,515	10,515	39,204	36,216
Telephone and internet	357	7,625	7,982	1,070	2,302	3,372	11,354	14,900
Subscriptions and miscellaneous expenses	166	268	434	10	147	157	591	1,522
Rent, rates and office cleaning	23,959	-	23,959	71,877	23,959	95,836	119,795	97,660
Depreciation and amortization	12,034	45,627	57,661	784	22,113	22,897	80,558	21,747
Bad debt expense	-	-	-	95,200	-	95,200	95,200	223,415
Subtotal expenses	<u>\$ 3,520,462</u>	<u>\$1,125,718</u>	<u>\$4,646,180</u>	<u>\$ 203,352</u>	<u>\$ 1,999,647</u>	<u>\$ 2,202,999</u>	<u>\$ 6,849,179</u>	<u>\$ 10,268,184</u>
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	<u>\$ 7,020,462</u>	<u>\$1,125,718</u>	<u>\$8,146,180</u>	<u>\$ 203,352</u>	<u>\$ 1,999,647</u>	<u>\$ 2,202,999</u>	<u>\$ 10,349,179</u>	<u>\$ 10,268,184</u>

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

**Statement of Functional Expenses
December 31, 2020**

	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	\$ 4,390,903	\$ 225,000	\$ 4,615,903	\$ -	\$ -	\$ -	\$ 4,615,903
Special events:							
Staging, décor, sound and lighting	-	-	-	-	1,669,542	1,669,542	1,669,542
Catering and rentals	-	-	-	-	370,959	370,959	370,959
Hotel and travel	-	-	-	-	855,966	855,966	855,966
Staffing and event management	-	-	-	-	211,661	211,661	211,661
Artist costs	-	-	-	-	39,901	39,901	39,901
Security and valet	-	-	-	-	163,636	163,636	163,636
Other event costs	-	-	-	-	158,898	158,898	158,898
Salaries and employee benefits	314,635	388,565	703,200	11,127	212,937	224,064	927,264
Contractual services	67,636	109,919	177,555	2,843	60,135	62,978	240,533
Recruitment and training costs	9,666	9,555	19,221	-	5,145	5,145	24,366
Bank fees and charges	203	780	983	-	420	420	1,403
Professional fees	85,391	188,937	274,328	2,937	58,808	61,745	336,073
System software and hardware	10,331	23,620	33,951	9,015	13,580	22,595	56,546
Travel and meetings	33,878	21,949	55,827	1,021	12,159	13,180	69,007
Postage and delivery	-	280	280	-	151	151	431
Office supplies, equipment and maintenance	2,203	1,080	3,283	2,694	1,413	4,107	7,390
Advertising and publicity	-	80,109	80,109	-	43,136	43,136	123,245
Insurance	13,690	14,642	28,332	-	7,884	7,884	36,216
Telephone and internet	2,419	2,504	4,923	6,892	3,085	9,977	14,900
Subscriptions and miscellaneous expenses	10	1,024	1,034	29	459	488	1,522
Rent, rates and office cleaning	19,532	-	19,532	58,596	19,532	78,128	97,660
Depreciation and amortization	22	15,095	15,117	65	6,565	6,630	21,747
Bad debt expense	-	-	-	223,415	-	223,415	223,415
Total expenses	\$ 4,950,519	\$1,083,059	\$ 6,033,578	\$ 318,634	\$3,915,972	\$ 4,234,606	\$10,268,184

See the notes to the financial statements.

ELTON JOHN AIDS FOUNDATION, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (1,772,623)	\$ 605,236
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	80,558	21,748
Realized and unrealized loss (gain) on investments	172,999	(172,208)
Canceled grant	(1,335,500)	-
Bad debt expense	95,200	223,415
Deferred rent	3,704	10,105
Changes in:		
Contributions receivable	(2,441,543)	1,020,822
Due from related party	(11,890)	100,523
Prepaid expenses and other assets	(181,026)	899,307
Accounts payable and accrued liabilities	38,379	(26,721)
Related-party payable	(415,886)	415,886
Special event advances	1,403,601	(1,274,621)
Grants payable	<u>4,403,997</u>	<u>(2,336,798)</u>
Net cash provided by (used in) operating activities	<u>39,970</u>	<u>(513,306)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,262,492	9,222,846
Purchases of investments	(10,154,711)	-
Purchases of property and equipment	<u>(82,435)</u>	<u>(119,478)</u>
Net cash (used in) provided by investing activities	<u>(7,974,654)</u>	<u>9,103,368</u>
Net change in cash and cash equivalents	(7,934,684)	8,590,062
Cash and cash equivalents, beginning of year	<u>11,605,314</u>	<u>3,015,252</u>
Cash and cash equivalents, end of year	\$ <u>3,670,630</u>	\$ <u>11,605,314</u>
Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 459,367</u>	<u>\$ 855,966</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

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.

[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.

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.

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.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

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

[5] Investments: (continued)

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.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. There were no triggering events occurring to property and equipment requiring management to test for, or adjust for, impairment losses during 2021 or 2020. 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. Most of the Foundation's grants are expected to be paid in the subsequent twelve months. 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.

[8] Deferred rent obligation:

For financial reporting purposes, the aggregate minimum rent expense is recognized using the straight-line method over the terms of the lease. The accumulative difference between rent expense incurred by the Foundation and the rental amounts paid, which are attributable to scheduled rent increases, is reported as a deferred rent obligation in the statements of financial position.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

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

[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. The exchange portion of special event proceeds for a future year's event is deferred and recognized when the event takes place. As all events were virtual during 2021 and 2020, there were no direct benefits to donors in either year.

(iii) *Donated goods and services:*

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

Donated goods and services are recorded at their estimated fair values at the dates of donation and are reported as without donor restrictions unless the donor has restricted the donated assets to a specific purpose. Donated goods and services are reported as both contributions and offsetting expenses in the statements of activities (see Note H).

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

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

[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 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 expense for 2021 and 2020 was approximately \$147,000 and \$123,000, 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.

[15] Upcoming accounting pronouncements:

(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; (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 will be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. The Foundation is currently evaluating the effect that this new guidance will have on the financial statements and related disclosures.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

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

[15] Upcoming accounting pronouncements: (continued)

(ii) Leases:

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), as amended, which supersedes the current leasing guidance and upon adoption, will require lessees to recognize right-of-use assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard is effective for the Foundation for the annual period beginning after December 15, 2021. ASU 2016-02 should be applied on a modified prospective basis. Upon the adoption of the guidance, operating leases are capitalized on the statements of financial position at the present value of lease payments. The statements of financial position amount recorded for existing leases at the date of adoption of ASU 2016-02 will be calculated using the applicable incremental borrowing or risk free rate at the date of adoption. The impact on the Foundation's financial statements is currently being evaluated. Information about the Foundation's undiscounted future lease payments and the timing of those payments is provided in Note K.

[16] Reclassification:

Certain amounts in the 2020 financial statements have been reclassified to conform to the presentation in the accompanying 2021 financial statements.

[17] Subsequent events:

The Foundation evaluated subsequent events through May 26, 2022, 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,	
	2021	2020
Less than one year	\$ 1,589,237	\$ 237,894
One to two years	<u>1,000,000</u>	<u>-</u>
	2,589,237	237,894
Less: allowance for doubtful accounts	<u>(5,000)</u>	<u>-</u>
	<u>\$ 2,584,237</u>	<u>\$ 237,894</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

NOTE B - CONTRIBUTIONS AND OTHER RECEIVABLES (CONTINUED)

[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.

NOTE C - INVESTMENTS

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

	December 31,	
	2021	2020
	Fair Value	Fair Value
U.S. treasury bills	\$ 1,295,474	\$ 2,249,445
U.S. government and agency obligations	<u>10,422,420</u>	<u>1,749,229</u>
	<u>\$ 11,717,894</u>	<u>\$ 3,998,674</u>

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

	December 31,	
	2021	2020
Interest and dividends	\$ 109,816	\$ -
Investment advisory fees	<u>(15,637)</u>	<u>(16,590)</u>
	<u>94,179</u>	<u>(16,590)</u>
Realized gains	272	188,679
Unrealized losses	<u>(173,271)</u>	<u>(16,471)</u>
	<u>(172,999)</u>	<u>172,208</u>
	<u>\$ (78,820)</u>	<u>\$ 155,618</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

NOTE C - INVESTMENTS (CONTINUED)

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.

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, 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>

	December 31, 2020		
	Level 1	Level 2	Total
U.S. treasury bills	\$ 2,249,445	-	\$ 2,249,445
U.S. government and agency obligations	-	1,749,229	1,749,229
	<u>\$ 2,249,445</u>	<u>\$ 1,749,229</u>	<u>\$ 3,998,674</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

NOTE D - PROPERTY AND EQUIPMENT

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

	December 31,	
	2021	2020
Office equipment and software	\$ 299,297	\$ 216,861
Furniture and fixtures	9,122	33,340
Leasehold improvements	<u>28,428</u>	<u>28,428</u>
	336,847	278,629
Less: accumulated depreciation and amortization	<u>(211,796)</u>	<u>(155,455)</u>
	<u>\$ 125,051</u>	<u>\$ 123,174</u>

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

NOTE E - GRANTS PAYABLE

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

	December 31,	
	2021	2020
In less than one year	\$ 6,075,800	\$ 4,313,432
In one-to-four years	<u>1,353,129</u>	<u>47,000</u>
	<u>\$ 7,428,929</u>	<u>\$ 4,360,432</u>

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31,	
	2021	2020
Purpose restricted:		
Walmart Partnership	\$ 3,000,000	\$ -
AIDSfree Campaign – U.S. South	129,521	150,000
Young People in Cote D'Ivoire	-	150,000
COVID Emergency Fund	<u>-</u>	<u>65,000</u>
	3,129,521	365,000
Time-restricted for future periods	<u>225,050</u>	<u>-</u>
	<u>\$ 3,354,571</u>	<u>\$ 365,000</u>

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	December 31,	
	2021	2020
Purpose restricted:		
The F.R.E.E Initiative	\$ -	\$ 1,000,000
AIDSfree Campaign – U.S. South	179,187	250,000
Young People in Cote D'Ivoire	473,180	26,360
COVID Emergency Fund	65,000	850,183
U-Test Initiative	62,801	67,500
	<u>\$ 780,168</u>	<u>\$ 2,194,043</u>

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, 2021 and 2020 of \$46,232 and \$62,553, respectively.

NOTE H - DONATED GOODS AND SERVICES

At each year-end, the Foundation received donated goods and services as follows:

	December 31,	
	2021	2020
Donated goods:		
Special events:		
Auction items	\$ -	\$ 855,966
Hotel	226,279	-
	<u>226,279</u>	<u>855,966</u>
Donated services:		
Event streaming	200,000	-
Legal	24,332	-
Information technology	8,756	-
	<u>233,088</u>	<u>-</u>
Total donated services	<u>233,088</u>	<u>-</u>
Total donated goods and services	<u>\$ 459,367</u>	<u>\$ 855,966</u>

(i) Other:

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, 2021 and 2020**

NOTE I - RELATED-PARTY TRANSACTIONS

[1] Grants:

During 2021, the Foundation made grants to EJAF UK, its sole member, totaling \$3,500,000. Additionally, at December 31, 2021, the Foundation is due a grant of \$300,000 from EJAF UK.

[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, 2021 and 2020, the net balances due from(to) EJAF UK were \$311,890 and (\$415,886), respectively.

The Foundation reimburses EJAF UK for payroll and related benefits for the staff who perform functions related to the Foundation's activities. For 2021 and 2020, these reimbursements approximated \$242,000 and \$146,000, respectively.

[3] Asset transfer agreement:

On December 14, 2020, the Foundation and International Friends of Elton John AIDS Foundation UK ("International Friends"), with whom the Foundation is related through a common controlling entity, entered into an asset transfer agreement, whereby upon the dissolution of International Friends, \$79,290 in cash was transferred by International Friends to the Foundation.

NOTE J - CONCENTRATION OF REVENUE

During 2021, the Foundation received 63% of its contributions of financial assets from two donors.

NOTE K - COMMITMENTS AND OTHER UNCERTAINTY

[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.

Future minimum rent payments under the lease agreement, exclusive of escalation charges and real estate taxes is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 132,635
2023	<u>67,298</u>
	<u>\$ 199,933</u>

A portion of the leased space was subleased to Billie Jean King Enterprises, an organization affiliated with a member of the Board of Directors through December 31, 2020. In 2020, the Foundation received \$30,000 under this sublease agreement and this amount is reflected netted with rent expense in the Foundation's statement of functional expenses.

ELTON JOHN AIDS FOUNDATION, INC.

Notes to Financial Statements December 31, 2021 and 2020

NOTE K - COMMITMENTS AND OTHER UNCERTAINTY (CONTINUED)

[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.

[3] Other uncertainty:

The extent of the impact and effects of coronavirus ("COVID-19") on the operational and financial performance of the Foundation's business will continue to depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions, and the consequential potential of staff shortages, all of which are highly uncertain and cannot be predicted. If demands for the Foundation's services are impacted for an extended period, the Foundation's results of operations may be materially adversely affected.

NOTE L - CONCENTRATION OF CREDIT RISK

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 believes the Foundation is not exposed to any significant risk of loss due to the failure of the depository banks.

NOTE M - 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:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,670,630	\$ 11,605,314
Contributions receivable	1,584,237	237,894
Due from related party	11,890	-
Investments	<u>11,717,894</u>	<u>3,998,674</u>
Total financial assets available within one year	<u>16,984,651</u>	<u>15,841,882</u>
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with:		
Purpose restrictions	(3,129,521)	(365,000)
Time-restricted for future periods	<u>(225,050)</u>	<u>-</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,630,080</u>	<u>\$ 15,476,882</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.