

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

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Independent Auditor's Report

**Board of Directors
American Friends of the Israel
Philharmonic Orchestra, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of the Israel Philharmonic Orchestra, Inc., which comprise the balance sheet as of December 31, 2017 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 American Friends of the Israel Philharmonic Orchestra, Inc. as of December 31, 2017 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.

Report on Summarized Comparative Information

We have previously audited American Friends of the Israel Philharmonic Orchestra Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

June 5, 2018

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

BALANCE SHEET

DECEMBER 31, 2017
(With Summarized Financial Information
for December 31, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,179,145	\$ 2,510,394
Investments (Note 2)	16,032,042	14,273,564
Contributions receivable - net (Note 3)	899,295	2,485,120
Other receivables	530,334	180,161
Prepaid expenses and other assets	31,553	20,770
Endowment fund investments (Notes 2 and 8)	3,512,622	1,899,935
Furniture and equipment - net (Note 4)	15,462	8,015
Musical instruments - net (Note 4)	2,415,084	2,487,025
Total assets	\$ 25,615,537	\$ 23,864,984
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts and accrued expenses payable	\$ 149,738	\$ 43,404
Deferred revenue	8,200	
Line of credit (Note 10)	11,309	
Total liabilities	169,247	43,404
Net assets (Exhibit B)		
Unrestricted	20,495,542	18,657,057
Temporarily restricted (Note 7)	1,820,482	2,109,894
Permanently restricted (Note 8)	3,130,266	3,054,629
Total net assets	25,446,290	23,821,580
Total liabilities and net assets	\$ 25,615,537	\$ 23,864,984

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

EXHIBIT B

STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information for
the Year Ended December 31, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Revenues, gains, losses and other support					
Contributions	\$ 1,640,464	\$ 1,547,704	\$ 75,637	\$ 3,263,805	\$ 2,203,252
Special events	\$ 3,161,564				
Less direct costs of special events	<u>(749,623)</u>				
Net revenues from special events	2,361,941	50,000		2,411,941	1,623,123
Investment income (Note 2)	1,764,584	382,356		2,146,940	816,873
Loss on fixed asset disposal					(180)
Net assets released from restriction (Note 7)	<u>2,269,472</u>	<u>(2,269,472)</u>			
Total revenues, gains, losses and other support	<u>8,036,461</u>	<u>(289,412)</u>	<u>75,637</u>	<u>7,822,686</u>	<u>4,643,068</u>
Expenses (Exhibit C)					
Program service - orchestral	<u>4,713,512</u>			<u>4,713,512</u>	<u>3,763,384</u>
Supporting services					
Management and general	407,910			407,910	306,868
Fund raising	<u>1,076,554</u>			<u>1,076,554</u>	<u>649,213</u>
Total supporting services	<u>1,484,464</u>			<u>1,484,464</u>	<u>956,081</u>
Total expenses	<u>6,197,976</u>			<u>6,197,976</u>	<u>4,719,465</u>
Change in net assets (Exhibit D)	1,838,485	(289,412)	75,637	1,624,710	(76,397)
Net assets - beginning of year	<u>18,657,057</u>	<u>2,109,894</u>	<u>3,054,629</u>	<u>23,821,580</u>	<u>23,897,977</u>
Net assets - end of year (Exhibit A)	<u>\$ 20,495,542</u>	<u>\$ 1,820,482</u>	<u>\$ 3,130,266</u>	<u>\$ 25,446,290</u>	<u>\$ 23,821,580</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	Program Service - Orchestral	Management and General	Fund Raising	Special Events	Total	
					2017	2016
Grants and other support for Israel Philharmonic Orchestra	\$ 4,535,514				\$ 4,535,514	\$ 3,640,183
Salaries	91,000	\$ 173,911	\$ 582,222		847,133	504,875
Employee benefits and payroll taxes	4,251	25,303	84,710		114,264	74,518
Occupancy (Note 5)	9,820	27,539	92,196		129,555	112,688
Telephone	986	2,566	8,591		12,143	8,874
Travel and carfare		10,486	48,235		58,721	25,144
Insurance		1,507	5,044		6,551	8,821
Professional fees		65,000	10,930		75,930	26,088
Investment fees		98,033			98,033	102,722
Other fees		9,849	32,974		42,823	27,201
Equipment rental and maintenance		984	3,294		4,278	3,400
Office expenses (includes interest expense of \$582)		2,946	14,679		17,625	11,930
Dues and subscriptions		609	2,040		2,649	2,735
Computer expenses		7,393	24,751		32,144	20,323
Postage and messenger		1,735	23,980		25,715	17,369
Printing and publications		3,979	65,355		69,334	34,483
Event production				\$ 263,204	263,204	144,341
Catering				486,419	486,419	233,112
Public relations		17,351	69,328		86,679	11,364
Recruitment		1,200			1,200	92,049
Depreciation	71,941	552	1,849		74,342	75,940
Bad debt expense		55,000			55,000	16,000
Miscellaneous			6,376		6,376	5,480
Total expenses	4,713,512	505,943	1,076,554	749,623	7,045,632	5,199,640
Less expenses deducted from revenues on the statement of activities						
Investment fees		(98,033)			(98,033)	(102,722)
Direct costs of special events				(749,623)	(749,623)	(377,453)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 4,713,512	\$ 407,910	\$ 1,076,554	\$ -	\$ 6,197,976	\$ 4,719,465

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 1,624,710	\$ (76,397)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net realized and unrealized gain on investments	(1,809,693)	(674,960)
Endowment fund contributions	(75,637)	(31,530)
Loss on fixed asset disposal		180
Depreciation	74,342	75,940
Decrease (increase) in assets		
Contributions receivable	506,768	806,570
Other receivables	(350,173)	390,733
Prepaid expenses and other assets	(10,783)	2,152
Increase (decrease) in liabilities		
Accounts and accrued expenses payable	106,334	(538,266)
Deferred revenue	8,200	
	<u>74,068</u>	<u>(45,578)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	1,512,093	1,627,500
Purchase of investments	(3,073,565)	(2,610,356)
Purchase of fixed assets	(9,848)	(2,408)
	<u>(1,571,320)</u>	<u>(985,264)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds received for endowment contributions	1,154,694	1,272,244
Proceeds from line of credit	70,331	
Payments on line of credit	(59,022)	
	<u>1,166,003</u>	<u>1,272,244</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	(331,249)	241,402
Cash and cash equivalents - beginning of year	<u>2,510,394</u>	<u>2,268,992</u>
Cash and cash equivalents - end of year	<u>\$ 2,179,145</u>	<u>\$ 2,510,394</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 582</u>	<u>\$ -</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

American Friends of the Israel Philharmonic Orchestra, Inc. (AFIPO) raises funds to support and to secure the financial future of the Israel Philharmonic Orchestra. AFIPO is a not-for-profit corporation which is tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3).

AFIPO is funded primarily by contributions from the general public, investment income and special events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities, when acquired, of three months or less.

Investments - Investments are stated at fair value. Investments in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in AFIPO's financial statements.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts - AFIPO's management determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged or recorded on overdue receivables.

Furniture, equipment and musical instruments - Furniture, equipment and musical instruments are recorded at cost. Furniture, equipment and musical instruments costing in excess of \$450 with a useful life of greater than one year are capitalized. Furniture and equipment are depreciated on the straight-line method over their estimated useful lives of five to seven years. Musical instruments are depreciated on the straight-line method over 50 years.

Deferred revenue - Deferred revenue represents funds received for special events that take place in the following year.

Reclassification - \$60,855 of investments, as reported in the 2016 financial statements, were reclassified to cash and cash equivalents to conform to the 2017 presentation.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors and includes designations by the Board of Directors for program expansion, anticipated program deficits and capital improvements.

Temporarily and permanently restricted net assets - Temporarily restricted net assets are those whose use by AFIPO has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by AFIPO in perpetuity.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Special events - AFIPO conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities. Income accrued related to special events is included in other receivables.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rent - AFIPO's method of accounting for rent expense under operating leases is in conformance with accounting policies generally accepted in the United States of America. For material leases that contain predetermined fixed escalations of the minimum rent, AFIPO recognizes the related rent expense on the straight-line basis and includes the impact of escalating rents for periods in which it is reasonably assured of exercising lease options.

Functional allocation of expenses - The costs of providing AFIPO's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Grants and other support to Israel Philharmonic Orchestra - All grants and other support to the Israel Philharmonic Orchestra in Israel are recorded pursuant to authorization by the Board of Directors of AFIPO.

Fair Value Measurements

ASC Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. The 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 below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AFIPO has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 as compared to those used at December 31, 2016.

Equities and exchange traded funds - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

Israel bonds - Valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Hedge funds - Valued at the NAV of shares held at year end as determined by the investment managers. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held less any liability. The practical expedient is not used when it is determined to be probable the fund will sell the investment for an amount different than reported at NAV.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while AFIPO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Assets			
Mutual funds - bonds	\$ 4,471,234	\$ -	\$ 4,471,234
Mutual funds - equities	7,619,087	-	7,619,087
Equities - large cap	622,849	-	622,849
Equities - mid cap/small cap	47,051	-	47,051
Exchange traded funds - index fund	1,501,069	-	1,501,069
Israel bonds	<u>-</u>	<u>5,228</u>	<u>5,228</u>
	<u>\$ 14,261,290</u>	<u>\$ 5,228</u>	14,266,518
Investments valued using NAV as a practical expedient *			
Hedge funds			4,887,512
Cash and cash equivalents			<u>390,634</u>
Total investments			<u>\$ 19,544,664</u>

* In accordance with ASU 2015-07, certain investments that were measured using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line item presented in the balance sheet.

Investment income consists of:

Dividends and interest		\$ 435,280
Realized and unrealized gains		<u>1,809,693</u>
		2,244,973
Investment fees		
Management fees	\$ (86,249)	
Performance fees	<u>(11,784)</u>	<u>(98,033)</u>
Investment income		<u>\$ 2,146,940</u>

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Investments Valued at NAV

The following table summarizes investments measured at fair value using net asset value (NAVs) as a practical expedient as of December 31, 2017:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fund (a)	\$ 911,225	None	Quarterly	45 days
Fund (b)	627,951	None	Quarterly	30 days
Fund (c)	781,644	None	Quarterly	60 days
Fund (d)	161,241	None	N/A	N/A
Fund (e)	239,830	\$ 99,972	Quarterly	45 days
Fund (f)	551,673	154,179	N/A	N/A
Fund (g)	537,358	None	Monthly	30 days
Fund (h)	567,943	None	Monthly	30 days
Fund (i)	<u>508,647</u>	None	Quarterly	90 days
Total	<u>\$ 4,887,512</u>			

Fund (a) - A fund-of-funds that seeks long-term capital appreciation through investments in a number of long/short equity hedge funds. There are 10 underlying multi-sector and sector funds, and average net exposure is in the 60% range.

Fund (b) - Seeks to generate superior risk-adjusted returns that maximize gains and minimize volatility over a broad range of market environments. The portfolio is domestically focused and generally maintains low net exposure to the market.

Fund (c) - Limited partnership which seeks to achieve equity-like investment returns while taking significantly less market risk than the broad market indices. The General Partner seeks to achieve this goal through superior security selection on both long and short positions.

Fund (d) - High yielding loans to diverse middle market companies across the U.S. providing transitional capital to fund acquisitions, refinancing, growth, recapitalizations and turnarounds on a sponsored or unsponsored basis.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Investments Valued at NAV (continued)

Fund (e) - Seeks to generate superior risk-adjusted returns that maximize gains and minimize volatility over a broad range of market environments. The portfolio is domestically focused and generally maintains low net exposure to the market.

Fund (f) - A privately held firm specializing in non-traditional money management activities. The firm seeks to acquire equity interests in sub-performing and distressed real estate assets and debt which often require significant capital restructuring and asset repositioning to stabilize.

Fund (g) - A privately held firm specializing in master limited partnerships (MLPs). The goal is to build a portfolio of energy securities with a track record of consistent growth through organic expansion and accretive acquisitions, unique market advantages, high-quality management team, or improving dividend payouts. The portfolio will typically hold 15-30 securities.

Fund (h) - A privately held firm specializing in non-US smaller cap companies. The fund's strategy is to invest in undiscovered companies in long-term growth industries overseas. The fund often engages in various forms of friendly shareholder activism intended to help the companies they invest in become more attractive to institutional investors sooner than they otherwise would.

Fund (i) - A privately held firm established in 2008 as a long/short hedge fund focused on US and foreign small capitalization stocks. The fund's approach to analyzing long-term investment opportunities is research intensive and focused on downside risk. It looks to partner with experienced management teams in industries often overlooked by institutional investors.

Uncertainty in income taxes - AFIPO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 5, 2018, which is the date the financial statements were available to be issued.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle/new accounting pronouncements - In 2017, AFIPO adopted ASU 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share or its Equivalent. This ASU applies to investments in certain entities for which fair value is measured using the net asset value per share (or its equivalent) as a practical expedient. These investments are not categorized in the fair value hierarchy but are included in the disclosure to reconcile investments to the balance sheet. This change does not impact the change in net assets or net assets.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable have been recorded in these financial statements at their realizable value. Those receivables that are payable in more than one year have been discounted to their present value using discount rates of 3%. The receivables are due as follows:

2018 and prior	\$ 465,900
2019	115,000
2020	155,000
2021	105,000
2022	105,000
Thereafter	<u>100,000</u>
	1,045,900
Less discount to present value	(46,605)
Less allowance for doubtful accounts	<u>(100,000)</u>
Net realizable value	\$ <u>899,295</u>

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - FURNITURE, EQUIPMENT AND MUSICAL INSTRUMENTS

	<u>Balance 12/31/17</u>	<u>Accumulated Depreciation 12/31/17</u>	<u>Net Book Value 12/31/17</u>
Furniture and equipment	\$ 70,867	\$ 55,405	\$ 15,462
Musical instruments	<u>3,597,052</u>	<u>1,181,968</u>	<u>2,415,084</u>
Total	<u>\$ 3,667,919</u>	<u>\$ 1,237,373</u>	<u>\$ 2,430,546</u>

NOTE 5 - LEASE COMMITMENTS

AFIPO leases premises in New York City under a ten-year lease which expires April 30, 2027. In addition to the minimum rentals, there are required payments for escalation in real estate taxes and other charges. AFIPO also leases office space in Los Angeles on a month-to-month basis. Total rent expense for 2017 was \$124,788 for both offices.

The minimum future lease payments are as follows:

2018	\$ 98,337
2019	100,304
2020	102,310
2021	104,356
2022	110,178
Thereafter	<u>511,570</u>
Total	<u>\$ 1,027,055</u>

NOTE 6 - CONCENTRATIONS

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with a major financial institution in New York City in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

In 2017, AFIPO received a contribution totaling \$1,500,000 from one donor.

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**AMERICAN FRIENDS OF THE ISRAEL
PHILHARMONIC ORCHESTRA, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose and periods:

Bronfman Auditorium	\$ 1,157,087
For periods after December 31, 2017	<u>663,395</u>
Total	<u>\$ 1,820,482</u>

During the current year, net assets were released from restriction for the following:

Bronfman Auditorium	\$ 1,800,511
Time restriction lapsed	<u>468,961</u>
Total	<u>\$ 2,269,472</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

General

AFIPO's endowment consists of one individual donor-restricted endowment fund established for support for the Israel Philharmonic Orchestra's guest conductor program for conductors who do not reside in Israel to perform with the Orchestra. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of AFIPO has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. AFIPO is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, AFIPO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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**AMERICAN FRIENDS OF THE ISRAEL
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of AFIPO is to maintain the principal endowment funds at the original amount designated by the donor while generating investment income. The investment policy for this fund is to invest in securities that provide capital appreciation without putting the principal value at excessive risks.

Funds with Deficiencies

AFIPO does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

The endowment net asset composition of \$3,512,622 as of December 31, 2017 consists of a permanently donor-restricted fund. Investment income earned is currently being added to the principal per donor instruction.

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 3,054,629	\$ 3,054,629
Contributions		75,637	75,637
Unrealized gain	\$ 369,062		369,062
Interest and dividends	<u>13,294</u>		<u>13,294</u>
Endowment net assets, end of year	<u>\$ 382,356</u>	<u>\$ 3,130,266</u>	<u>\$ 3,512,622</u>

NOTE 9 - PENSION PLAN

AFIPO offers a 403(b) pension plan. To be eligible to participate in this plan, the employee must be at least 21 years old and work a minimum of 20 hours per week. This plan only provides for employee contributions through a salary reduction agreement with no provision for an employer matching contribution. Employees are fully vested in their contributions to the plan.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 10 - LINE OF CREDIT

AFIPO has a \$25,000 line of credit, bearing interest at 10% as of December 31, 2017. The balance as of December 31, 2017 was \$11,309, which was subsequently paid off after year end. Interest expense for 2017 was \$582 and is recorded as office expense in the statement of functional expenses.