American Friends of the Israel Philharmonic Orchestra, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

CPAs & Advisors

American Friends of the Israel Philharmonic Orchestra, Inc.
December 31, 2018 and 2017

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of the Israel Philharmonic Orchestra, Inc., which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of the Israel Philharmonic Orchestra, Inc. as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2018, American Friends of the Israel Philharmonic Orchestra, Inc. adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors and Summarized Comparative Information

The 2017 financial statements, before they were restated for the matters discussed in *Note 11*, were audited by other auditors and their report thereon, dated June 5, 2018, expressed an unmodified opinion. The summarized comparative information, prior to the restatement impact for the matters discussed in *Note 11*, presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

New York, New York
September 13, 2019

American Friends of the Israel Philharmonic Orchestra, Inc.

Statement of Financial Position

December 31, 2018

(With Summarized Financial Information for December 31, 2017)

	2018	2017 (Restated - Note 11)
Assets		
Cash and cash equivalents	$ 1,430,104	$ 2,179,145
Investments	18,750,965	19,544,664
Contributions receivable, net	947,610	899,295
Other receivables	118,872	530,334
Prepaid expenses and other assets	75,928	31,553
Property, equipment and musical instruments, net	2,371,433	2,430,546
Total assets	$ 23,694,912	$ 25,615,537
Liabilities and Net Assets		
Liabilities		
Accounts and accrued expenses payable	$ 40,884	$ 149,738
Deferred revenue	357,762	8,200
Deferred rent	25,097	-
Line of credit	-	11,309
Total liabilities	423,743	169,247
Net Assets		
Without donor restrictions		
Operating	18,182,252	21,308,273
Board designated	686,926	-
Total without donor restrictions	18,869,178	21,308,273
With donor restrictions	4,401,991	4,138,017
Total net assets	23,271,169	25,446,290
Total liabilities and net assets	$ 23,694,912	$ 25,615,537

American Friends of the Israel Philharmonic Orchestra, Inc.

Statement of Activities

Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

		2018			
		Without Donor Restrictions	With Donor Restrictions	Total	2017 (Restated - Note 11)
Revenues, Gains, Losses and Other Support					
Contributions		$ 1,106,080	$ 1,593,573	$ 2,699,653	$ 3,263,805
Special events	$ 2,524,628				
Less direct costs of special events	(536,708)				
Net revenues from special events		1,987,920	-	1,987,920	2,411,941
Bad debt loss		-	(105,000)	(105,000)	(55,000)
Investment return		(916,605)	(103,599)	(1,020,204)	2,146,940
Net assets released from restriction		1,121,000	(1,121,000)	-	-
Total revenues, gains, losses and other support		3,298,395	263,974	3,562,369	7,767,686
Expenses					
Program service - Orchestral		4,274,513	-	4,274,513	4,713,512
Supporting services					
Management and general		389,247		389,247	352,910
Fund raising		1,073,730	-	1,073,730	1,076,554
Total supporting services		1,462,977	-	1,462,977	1,429,464
Total expenses		5,737,490	-	5,737,490	6,142,976
Change in Net Assets		(2,439,095)	263,974	(2,175,121)	1,624,710
Net Assets, Beginning of Year, as Previously Stated		20,495,542	4,950,748	25,446,290	23,821,580
Restatement		812,731	(812,731)	-	-
Net Assets, Beginning of Year, As Restated		21,308,273	4,138,017	25,446,290	23,821,580
Net Assets, End of Year		$ 18,869,178	$ 4,401,991	$ 23,271,169	$ 25,446,290

American Friends of the Israel Philharmonic Orchestra, Inc.

Statement of Functional Expenses

Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Program Service - Orchestral	Management and General	Fund Raising	Direct Cost of Special Events	Total 2018	Total 2017 (Restated - Note 11)
Grants and other support for Israel Philharmonic Orchestra	$ 4,091,765	$ -	$ -	$ -	$ 4,091,765	$ 4,535,514
Salaries	92,896	171,762	575,030	-	839,688	847,133
Employee benefits and payroll taxes	4,325	27,212	91,102	-	122,639	114,264
Occupancy	12,643	33,829	113,254	25,848	185,574	129,555
Telephone	943	2,588	8,663	-	12,194	12,143
Travel and carfare	-	11,427	44,212	-	55,639	58,721
Insurance	-	1,523	5,098	-	6,621	6,551
Professional fees	-	89,126	6,065	-	95,191	75,930
Other fees	-	15,347	35,319	-	50,666	42,823
Equipment rental and maintenance	-	3,267	10,936	-	14,203	4,278
Office expense	-	4,233	14,453	-	18,686	17,625
Dues and subscriptions	-	608	2,034	-	2,642	2,649
Computer expenses	-	6,886	23,052	-	29,938	32,144
Postage and messenger	-	1,284	18,448	-	19,732	25,715
Printing and publications	-	1,488	39,678	-	41,166	69,334
Event production	-	-	-	231,058	231,058	263,204
Catering	-	-	-	279,802	279,802	486,419
Public relations	-	15,107	75,601	-	90,708	86,679
Recruitment	-	671	2,246	-	2,917	1,200
Depreciation	71,941	2,432	8,140	-	82,513	74,342
Miscellaneous	-	457	399	-	856	6,376
Total expenses	4,274,513	389,247	1,073,730	536,708	6,274,198	6,892,599
Less expenses deducted from revenues on the statement of activities						
Direct costs of special events	-	-	-	(536,708)	(536,708)	(749,623)
Total expenses reported by function on the statement of activities	$ 4,274,513	$ 389,247	$ 1,073,730	$ -	$ 5,737,490	$ 6,142,976

American Friends of the Israel Philharmonic Orchestra, Inc.

Statement of Cash Flows

Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018	2017
Operating Activities		
Change in net assets	$ (2,175,121)	$ 1,624,710
Items not requiring (providing) operating cash flows		
Net realized and unrealized loss (gain) on investments	1,608,814	(1,809,693)
Endowment fund contributions	-	(75,637)
Depreciation	82,513	74,342
Bad debt loss	105,000	-
Changes in		
Contributions receivable	(153,315)	506,768
Other receivables	411,462	(350,173)
Prepaid expenses and other assets	(44,375)	(10,783)
Accounts and accrued expenses payable	(108,854)	106,334
Deferred revenue	349,562	8,200
Deferred rent	25,097	-
Net cash provided by operating activities	100,783	74,068
Investing Activities		
Proceeds from sale of investments	3,409,475	1,512,093
Purchase of investments	(4,224,590)	(3,073,565)
Purchase of property, equipment and musical instruments	(23,400)	(9,848)
Net cash used in investing activities	(838,515)	(1,571,320)
Financing Activities		
Proceeds from contributions income restricted for long-term investment	-	1,154,694
Proceeds from line of credit	87,943	70,331
Payments on line of credit	(99,252)	(59,022)
Net cash provided by (used in) financing activities	(11,309)	1,166,003
Decrease in Cash and Cash Equivalents	(749,041)	(331,249)
Cash and Cash Equivalents, Beginning of Year	2,179,145	2,510,394
Cash and Cash Equivalents, End of Year	$ 1,430,104	$ 2,179,145
Supplemental Cash Flows Information		
Cash paid during the year for interest	$ 406	$ 582

Note 1: Nature of Organization and Summary of Significant Accounting Policies

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.

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

AFIPO considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2018, the cash accounts exceed federally insured limits by approximately $597,000.

Investments and Investment Return

Investments in equities, exchange traded funds, mutual funds and Israel bonds having a readily determinable fair value are carried at fair value. Investments in hedge funds are recorded at net asset value (NAV) as a practical expedient. Investment return includes dividends and interest; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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 their fair value, which is measured 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.

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.

Property, Equipment and Musical Instruments

Property, equipment and musical instruments are stated at cost less accumulated depreciation. Property, equipment and musical instruments costing in excess of $450 with a useful life of greater than one year are capitalized. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property, equipment and musical instruments are as follows:

Property and equipment	5 - 7 years
Musical instruments	50 years

Long-Lived Asset Impairment

AFIPO evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Deferred Revenue

Revenue from fees for funds received for special events that take place in the following year is deferred and recognized over the periods to which the fees relate.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to AFIPO either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

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.

Rent

Rent expense has been recorded on the straight-line basis over the term of the lease. Deferred rent has been recorded for the difference between the fixed payments and the rent expense, if material.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on salaries and office space, or direct charges.

Grants and Other Support to Israel Philharmonic Orchestra

All grants and other support to the Israel Philharmonic Orchestra in Israel are recorded when approved by management and the Board of Directors.

Summarized Financial Information for 2017

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 generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with AFIPO's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements. These reclassifications did not have a significant impact on the financial statements and did not affect AFIPO's total assets or change in net assets.

Revision

A certain immaterial revision has been made to the 2017 financial statements to reduce general and administrative expenses and revenues for bad debt loss in the amount of $55,000. This revision did not have a significant impact on the financial statements and did not affect AFIPO's change in net assets.

Change in Accounting Principle

Presentation of Financial Statements of Not-for-Profit Entities

On January 1, 2018, AFIPO adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Functional Expenses

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Statement of Cash Flows

- AFIPO continues to use indirect method of reporting to present operating cash flows.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Amounts and purposes of Governing Board designations and appropriations as of the end of the year are disclosed.

This change had no impact on previously reported total change in net assets.

Note 2: 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 percent and 5.75 percent. The receivables are due as follows:

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Due in one year	$ 449,642	$ 36,000	$ 485,642
Due in two to five years	715,000	-	715,000
	1,164,642	36,000	1,200,642
Less			
Allowance for uncollectible contributions	(200,000)	-	(200,000)
Unamortized discount	(53,032)	-	(53,032)
	$ 911,610	$ 36,000	$ 947,610

	2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Due in one year	$ 368,900	$ 97,000	$ 465,900
Due in two to five years	480,000	-	480,000
Due in more than five years	100,000	-	100,000
	948,900	97,000	1,045,900
Less			
Allowance for uncollectible contributions	(100,000)	-	(100,000)
Unamortized discount	(46,605)	-	(46,605)
	$ 802,295	$ 97,000	$ 899,295

Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

	2018		
		Fair Value Measurements Using	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 762,537	$ -	$ -
Mutual funds - bonds	3,949,349	3,949,349	-
Mutual funds - equities	6,419,010	6,419,010	-
Equities - large cap	551,762	551,762	-
Equities - mid cap/small cap	36,257	36,257	-
Exchange traded funds - index fund	1,766,568	1,766,568	-
Israel bonds	20,161	-	20,161
	13,505,644	$ 12,722,946	$ 20,161
Investments measured at net asset value (A):			
Hedge funds	3,363,092		
Limited partnerships	1,882,229		
	5,245,321		
Total investments	$ 18,750,965		

	2017		
		Fair Value Measurements Using	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 390,634	$ -	$ -
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	5,228	-	5,228
	14,657,152	$ 14,261,290	$ 5,228
Investments measured at net asset value (A):			
Hedge funds	2,644,477		
Limited partnerships	2,243,035		
	4,887,512		
Total investments	$ 19,544,664		

(A) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The 2017 presentation of investments above of $2,243,035 was incorrectly presented as hedge funds and has been revised to be presented as limited partnerships within the investments measured at NAV.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2018 and 2017.

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 NAV of shares held at year end.

Israel bonds: Valued based on present value of expected future cash flow model.

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.

Hedge Funds and Limited Partnerships

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	Fair Value		Unfunded	Redemption	Redemption
	2018	2017	Commitments	Frequency	Notice Period
Fund (a)	$ 696,816	$ 911,225	$ -	Quarterly	45 days
Fund (b)	659,249	627,951	-	Quarterly	30 days
Fund (c)	468,577	537,358	-	Monthly	30 days
Fund (d)	463,282	567,943	-	Monthly	30 days
Fund (e)	745,062	-	-	Monthly	30 days
Limited Partnership (f)	812,261	781,644	-	Quarterly	60 days
Limited Partnership (g)	224,785	161,241	180,517	N/A	N/A
Limited Partnership (h)	326,416	239,830	26,013	N/A	45 days
Limited Partnership (i)	330,106	551,673	154,179	N/A	N/A
Limited Partnership (j)	518,767	508,647	-	Quarterly	90 days
Total	$ 5,245,321	$ 4,887,512	$ 360,709		

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 percent 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): 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 (d): 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 (e): An independent, registered investment adviser, founded by Ted Aronson, Martha Ortiz and three others in 1984. The firm uses an active, value-oriented approach and a highly disciplined, quantitative process to build diversified, fully invested portfolios. This fund evaluates companies relative to their industry peers using three categories — or pillars — of attractiveness: value, management and momentum. This fund's Emerging Markets All Cap is invested in approximately 200 holdings.

Fund (f): 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 (g): 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.

Fund (h): 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 (i): 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 (j): A privately held firm established in 2008 as a long/short hedge fund focused on U.S. 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.

Note 4: Furniture, Equipment and Musical Instruments

	2018	2017
Furniture and equipment	$ 61,941	$ 70,867
Musical instruments	3,597,052	3,597,052
	3,658,993	3,667,919
Less accumulated depreciation	(1,287,560)	(1,237,373)
	$ 2,371,433	$ 2,430,546

Note 5: Lease Commitments

AFIPO leases premises in New York City under a 10-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 2018 and 2017 was $134,630 and $124,788, respectively, for both offices.

The minimum future lease payments are as follows:

2019	$	100,304
2020		102,310
2021		104,356
2022		110,178
2023		114,249
Thereafter		397,321
Total	$	928,718

Note 6: Concentrations

For the year ended December 31, 2018, approximately 36 percent of contributions were received from two donors. For the year ended December 31, 2017, approximately 23 percent of contributions were received from one donor.

Note 7: Net Assets With Donor Restrictions

Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

	2018	2017 Restated
Subject to expenditure for specified purpose or time		
Bronfman Auditorium	$ 36,000	$ 57,000
Commissioning fund	90,000	-
Time restriction	866,968	568,395
	992,968	625,395
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for guest conductor program	3,197,190	3,130,266
Subject to NFP endowment spending policy and appropriation of earnings on endowment	211,833	382,356
Total endowments	3,409,023	3,512,622
	$ 4,401,991	$ 4,138,017

Net assets as of January 1, 2018 have been restated to properly disclose the balances of net assets with and without donor restrictions.

	2017 (Restatement)		
	Net Assets, as Previously Stated	Restatement	Net Assets, as Restated
Bronfman Auditorium	$ 1,157,087	$ (1,100,087)	$ 57,000
Time restriction	663,395	(95,000)	568,395
	$ 1,820,482	$ (1,195,087)	$ 625,395

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018
Expiration of time restrictions	$ 100,000
Satisfaction of purpose restrictions	
Bronfman Auditorium	921,000
Piano	100,000
	$ 1,121,000

During 2018, certain net assets were reclassified from net assets without donor restrictions to net assets with donor restrictions in accordance with donor agreements.

Note 8: Endowment

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 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 percent of the average of its previous five years’ balance. As a result of this interpretation, AFIPO classifies as endowment restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Return Objectives, Strategies Employed and Spending Policy

The objective of AFIPO is to maintain the principal endowment fund designated by the donor while generating investment income except to the extent that a donor designated the fund to be fully disbursed by January 31, 2036. 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, 2018 and 2017

The endowment net asset composition of $3,409,023 and $3,512,622 as of December 31, 2018 and 2017, respectively, 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 Years Ended December 31, 2018 and 2017

	With Donor Restrictions	
	2018	2017
Endowment net assets, beginning of year	$ 3,512,622	$ 3,054,629
Contributions	-	75,637
Investment return	(103,599)	382,356
Endowment net assets, end of year	$ 3,409,023	$ 3,512,622

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.

Note 10: Line of Credit

AFIPO has a $25,000 line of credit, bearing interest at 10 percent as of December 31, 2018. There was no outstanding balance as of December 31, 2018. The outstanding balance as of December 31, 2017 was $11,309. Interest expense for 2018 and 2017 was $406 and $582, respectively, and is recorded as office expense in the statement of functional expenses.

Note 11: Restatement of Prior Year's Financial Statements

During 2018, AFIPO restated its opening net assets with and without donor restrictions to correct for amounts of $812,731 that had not been properly transferred from net assets with donor restrictions to net assets without donor restrictions all of which occurred in years prior to 2018. This restatement had no impact on the change in net assets for 2018.

Note 12: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Financial assets at year end	
Cash	$ 1,430,104
Investments	18,750,965
Contributions receivable, net	947,610
Total financial assets at year end	21,128,679
Less amounts not available to be used within one year	
Donor imposed restrictions - time restricted for future periods	(4,401,991)
Total amounts not available to be used within one year	(4,401,991)
Financial assets available to meet general expenditures within one year	$ 16,726,688

AFIPO manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. To achieve these targets, AFIPO forecasts its future cash flows and monitors its reserves annually. During the year ended December 31, 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 13: Subsequent Events

Subsequent events have been evaluated through September 13, 2019, which is the date the financial statements were available to be issued.

Note 14: Future Changes in Accounting Principles

ASU 2018-08 Grants and Contributions

On June 21, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

The standard will be effective for reporting periods beginning on or after December 15, 2018.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020. AFIPO is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.