

THE ISRAEL PHILHARMONIC ORCHESTRA (PBC)

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019

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AUDITORS' REPORT

To the Members of

THE ISRAEL PHILHARMONIC ORCHESTRA (PBC)

We have audited the accompanying statements of financial position of The Israel Philharmonic Orchestra (Public Benefit Company) ("the Orchestra") as of December 31, 2019 and 2018 and the related statements of activities, changes in net assets and cash flows for each of the years then ended. These financial statements are the responsibility of the Orchestra's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of an associate accounted for at equity, the investment in which amounted to NIS 74,782 thousand and NIS 76,337 thousand as of December 31, 2019 and 2018, respectively, and the Orchestra's share of its losses amounted to NIS 3,390 thousand and NIS 4,457 thousand for the years then ended, respectively. The financial statements of the associate were audited by other auditors and our opinion, insofar as it relates to amounts included for this company, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Orchestra's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Orchestra as of December 31, 2019 and 2018 and the results of its activities, the changes in net assets and its cash flows for each of the years then ended, in conformity with generally accepted accounting principles in Israel (Israeli GAAP).

Jerusalem, Israel
July 13, 2020

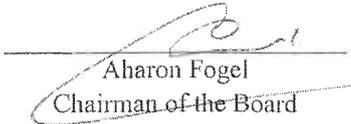
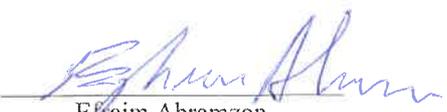
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A Member of Ernst & Young Global

THE ISRAEL PHILHARMONIC ORCHESTRA (PBC)

STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2019	2018
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	55,876	49,604
Short-term investments	4	94,682	100,071
Accounts receivable	5	2,673	4,032
Inventory		306	277
		<u>153,537</u>	<u>153,984</u>
NON-CURRENT ASSETS:			
Long-term investments	6	21,919	17,986
Investment in associate	7	74,782	76,337
Fixed assets	8	2,033	2,284
		<u>98,734</u>	<u>96,607</u>
		<u>252,271</u>	<u>250,591</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Trade payables	9	704	553
Other accounts payable	10	9,575	7,790
Deferred revenues	11	20,777	20,081
		<u>31,056</u>	<u>28,424</u>
NON-CURRENT LIABILITIES:			
Accrued severance pay, net	12	227	799
Other liabilities	13	498	498
		<u>725</u>	<u>1,297</u>
CONTINGENT LIABILITIES	14		
NET ASSETS:			
Net assets - unrestricted:			
Used in operations undesignated by management		15,648	14,223
Used in operations designated by management	15	127,055	127,055
Used in fixed assets		2,033	2,284
Used in investment in Charles Bronfman Auditorium		74,782	76,337
		<u>219,518</u>	<u>219,899</u>
Temporarily restricted net assets		<u>972</u>	<u>971</u>
		<u>220,490</u>	<u>220,870</u>
		<u>252,271</u>	<u>250,591</u>

The accompanying notes are an integral part of the financial statements.

<p>July 13, 2020 Date of approval of the financial statements</p>	 Aharon Fogel Chairman of the Board	 Effaim Abramzon Member of the Board
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STATEMENTS OF ACTIVITIES

	Note	Year ended December 31,	
		2019	2018
		NIS in thousands	
Revenues from operations:			
Concerts	16	41,230	41,083
Appropriations, donations and other	17	24,671	25,700
Concerts abroad		12,616	624
Social activism		2,009	2,157
Amounts released from restricted net assets to operations		-	10
		<u>80,526</u>	<u>69,574</u>
Expenditures:			
Salaries and related benefits for musicians		34,954	34,569
Concert performance	18	29,655	27,930
Social activism		2,167	2,227
Administration	19	3,710	3,689
Concerts abroad		11,755	864
		<u>82,241</u>	<u>69,279</u>
Net revenues (expenditures) from operations		<u>(1,715)</u>	<u>295</u>
Financial income, net		<u>4,334</u>	<u>812</u>
Net revenues before Orchestra's share of losses of associate		2,619	1,107
Orchestra's share of losses of associate		<u>3,390</u>	<u>4,457</u>
Net expenditures		<u><u>771</u></u>	<u><u>3,350</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Unrestricted				Temporarily	Total
	Used in operations		Used in fixed assets	Used in investment in Charles Bronfman Auditorium	restricted	
	Undesignated by management	Designated by management			QuinQuin Fund	
Balance at January 1, 2018	12,969	127,055	2,227	80,794	779	223,824
Additions (disposals) during the year:						
Transfer of amounts for covering depreciation expenses	657	-	(657)	-	-	-
Transfer of amounts for covering the Orchestra's share of losses of associate	4,457	-	-	(4,457)	-	-
Amounts released from operations to fixed assets	(510)	-	510	-	-	-
Amounts released from temporary restriction	-	-	-	-	(10)	(10)
Financing	-	-	-	-	60	60
Net expenditures	(3,350)	-	-	-	-	(3,350)
Donations	-	-	204	-	142	346
Balance at December 31, 2018	14,223	127,055	2,284	76,337	971	220,870
Additions (disposals) during the year:						
Transfer of amounts for covering depreciation expenses	757	-	(757)	-	-	-
Transfer of amounts for covering the Orchestra's share of losses of associate	3,390	-	-	(3,390)	-	-
Amounts released from operations to fixed assets	(116)	-	116	-	-	-
Amounts released from operations to the Charles Bronfman Auditorium	(1,835)	-	-	1,835	-	-
Financing	-	-	-	-	(58)	(58)
Net expenditures	(771)	-	-	-	-	(771)
Donations	-	-	390	-	59	449
Balance at December 31, 2019	15,648	127,055	2,033	74,782	972	220,490

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2019	2018
	NIS in thousands	
<u>Cash flows from operating activities:</u>		
Net expenditures	(771)	(3,350)
Adjustments to reconcile net expenditures to net cash provided by (used in) operating activities (see appendix)	2,456	230
Net cash provided by (used in) operating activities	1,685	(3,120)
<u>Cash flows from investing activities:</u>		
Investment in fixed assets	(506)	(714)
Long-term investments, net	(4,814)	(7,665)
Short-term investments, net	12,007	(61,349)
Investment in associate	(1,835)	-
Proceeds from sale of fixed assets	42	-
Net cash provided by (used in) investing activities	4,894	(69,728)
<u>Cash flows from financing activities:</u>		
Donations received for purchase of fixed assets	390	204
Temporarily restricted donations	59	142
Net cash provided by financing activities	449	346
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(756)	876
Increase (decrease) in cash and cash equivalents	6,272	(71,626)
Cash and cash equivalents at the beginning of the year	49,604	121,230
Cash and cash equivalents at the end of the year	55,876	49,604

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2019	2018
	NIS in thousands	
<u>Appendix to statements of cash flows:</u>		
<u>Adjustments to reconcile net expenditures to net cash provided by (used in) operating activities:</u>		
Income and expenses not involving cash flows:		
Financial income, net	(4,981)	(1,026)
Revaluation of designated funds	(58)	60
Release of restricted earnings	-	(10)
Depreciation	757	656
Orchestra's share of losses of associate	3,390	4,457
Gain from sale of fixed assets	(42)	-
Changes in asset and liability items:		
Increase (decrease) in other accounts payable	1,785	(3,167)
Increase (decrease) in deferred revenues	696	(802)
Decrease in accrued severance pay, net	(572)	(230)
Increase (decrease) in trade payables	151	(112)
Increase in inventory	(29)	(27)
Increase in other liabilities	-	18
Decrease in accounts receivable	1,359	413
	<u>2,456</u>	<u>230</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. The Israel Philharmonic Orchestra (PBC) ("the Orchestra") was founded and registered at the Companies Registrar on March 7, 1996, at the VAT on April 6, 1997 as a not-for-profit organization and on March 21, 2004 at the Endowment Registrar.

The Orchestra operates pursuant to the Companies Law, 1999.

- b. The Orchestra acts to direct the philharmonic orchestra, to support, encourage and spread music in Israel and worldwide, to spread and expand musical culture, to organize and hold concerts, festivals, public musical events and participate in them, to hire musicians, soloists and conductors, to encourage and develop the professional level of the musicians, to cooperate with different entities in Israel and worldwide that have the same or similar goals, to purchase and sell copyright or any other rights to musical works (for and without consideration) and any activity that may assist in promoting each of the above goals. The Orchestra's assets and revenues are used to promote its public goals.
- c. The Orchestra's activities are designated for public purposes as defined in the Income Tax Ordinance and, therefore, its income is not liable for tax.
- d. Donations to the Orchestra were approved pursuant to section 46 to the Income Tax Ordinance through December 31, 2023 to be credited up to the tax the donor owes under certain limitations. The approval may be extended each time if a request to renew the approval is submitted towards the end of the period.
- e. Definition:

In these financial statements:

An associate - a company over which the Orchestra has significant influence and the Orchestra's investment therein is included in the financial statements at equity.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis are as follows:

a. Accounting for not-for-profit organizations:

The financial statements are presented in accordance with the combined version of Opinion No. 69 as amended by Accounting Standard No. 5 and Accounting Standard No. 36 of the Israeli Accounting Standards Board regarding accounting and reporting principles for not-for-profit organizations.

Accordingly, net assets have been separated into two main categories:

1. Net assets - unrestricted:

Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations

Unrestricted net assets are presented in four other subcategories:

- a) Net assets used in operations undesignated by management.
- b) Net assets used in operations designated by management.
- c) Net assets used in fixed assets.
- d) Net assets used as investment in the Charles Bronfman Auditorium.

2. Net assets – temporarily restricted:

Donations and/or other inflows of assets received whose use is limited by donor-imposed restrictions that are used for activities or other purpose in the reporting year, are included in the statement of activities as income or expenditure or in the statement of changes in net assets as an addition to unrestricted net assets.

Receipts of donor-restricted contributions that were not used for activities in the reporting year, are included in the statement of changes in net assets as an addition to restricted net assets. When the donor's purpose restriction has been fulfilled, the donations are included in the statement of changes in net assets and in the statement of activities as amounts released from restricted net assets to operations.

b. The reporting basis of the financial statements:

The financial statements are prepared in nominal amounts based on the historical cost convention since the effect of the changes in the general purchasing power of the Israeli currency on the financial statements prior to December 31, 2003 (the date of transition to nominal financial reporting in accordance with Accounting Standard No. 12 of the Israeli Accounting Standards Board) is immaterial.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the NIS.

The functional currency, which is the currency that best reflects the economic environment in which the Orchestra operates and conducts its transactions, is separately determined for each entity, including an associate accounted for at equity, and is used to measure its financial position and operating results.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange differences are recognized in the statement of activities. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction.

d. Cash equivalents:

The Orchestra considers highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment, to be cash equivalents.

e. Short-term deposits:

Short-term bank deposits with an original maturity of more than three months from the date of investment. The deposits are presented according to their terms of deposit.

f. Short-term marketable securities:

Marketable securities that are held for the short-term and available for immediate sale are stated at quoted market prices at the reporting date. Changes in their value are reported in the statement of activities in the item finance, net.

g. Other investments:

Investments in non-marketable securities and permanent investments in marketable securities are stated at cost, net of provisions for impairment which, in the Orchestra's management estimate, are other than temporary, see k(2) below.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Investment in associate:

These investments are presented using the equity method. Under the equity method, the investment in the associate is presented at cost with the addition of post-acquisition changes in the Group's share of net assets. Gains and losses resulting from transactions between the Orchestra and the associate are eliminated to the extent of the interest in the associate.

i. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Orchestra's management, is doubtful.

j. Fixed assets:

Fixed assets are measured at cost including direct acquisition costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	<u>%</u>
Musical instruments	15
Computer systems	33
Leasehold improvements	10
Office furniture and equipment	6 - 15

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Orchestra and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of fixed assets, see k(1) below.

k. Impairment of assets:

1. Impairment of non-financial assets:

The Orchestra evaluates the need to record an impairment of the carrying amount of fixed assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of fixed assets exceeds their recoverable amount, the fixed assets are reduced to their recoverable amount. The recoverable amount is the higher of the net selling price and value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Impairment of other investments:

The Orchestra generally evaluates the fair value of its investment in each reporting period and whenever irregular events or appearance of warning signs indicate a decline in value that is other than temporary.

The evaluation of the fair value takes into consideration, among others, the market value of the investments (in respect of investments in marketable securities), estimates of analysts and valuations of the investments, the conditions of the industry in which the portfolio company is operating, the portfolio company's business condition, off-market transactions in the portfolio company's securities, prices of equity transactions in the portfolio company and additional information that the portfolio company presents to its board of directors (if the Company is represented on the board) or to its shareholders.

Based on the results of the above evaluation, the Orchestra, if necessary, recognizes an impairment loss that is other than temporary in the statement of activities.

1. Deferred revenues:

The amounts represent receipts from concert subscribers for concerts not yet performed. Deferred revenues will be reported as revenues in the statement of activities of the next reporting year.

m. Revenues and expenditures:

Revenues and expenditures are accounted for on an accrual basis, except revenues from donations and appropriations that are recorded only when the donor irrevocably established the commitment which relates to the reporting year and it is unconditional on the occurrence of a future event and they have been actually received up to the date of the approval of the financial statements.

n. Advertising expenses:

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Orchestra has the right of access to the advertising goods or when the Orchestra receives those services.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Financial instruments:

1. Current investment:

A current investment is an investment in marketable securities which in its essence is available for immediate sale and constitutes part of the Orchestra's liquid sources. It is not an investment that the Orchestra intends to hold for the long-term and it is not an investment that the Orchestra has undertaken to hold to maturity. It is measured at market price. A current investment is presented in current assets.

2. Permanent investment:

A permanent investment is an investment in marketable securities other than a current investment. A permanent investment is measured at cost. If there is an impairment loss that is other than temporary, the investment is reduced accordingly. A permanent investment is presented in long-term investments, loans and receivables.

p. Use of estimates for the preparation of financial statements:

The preparation of the financial statements requires management to make estimates and assumptions that affect the adoption of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The changes in accounting estimates are reported in the period of the change in estimate.

q. Employee benefits:

1. Short-term employee benefits - an entity will recognize short-term employee benefits over the employee's service period and measure them in an undiscounted amount.
2. Post-employment benefits including retirement pay benefits - an entity will classify arrangements in which it provides post-employment employee benefits as defined contribution plans or as defined benefit plans. According to defined contribution plans, the entity recognizes amounts that should be contributed in the relevant period as an expense and as a liability when the amounts have not yet been contributed. According to defined benefit plans, excluding retirement pay benefits, an entity will apply an actuarial model using the projected unit credit method. As for retirement pay benefits, the Standard allows an entity to choose between the same actuarial model used to account for other benefits based on the defined benefit plan and adopting the shutdown method which is currently applied according to Opinion 20.
3. Other long-term employee benefits - an entity will recognize a liability for other long-term employee benefits and measure it at the present value of the benefit obligation on the reporting date.
4. Surplus termination benefits under special circumstances - these are benefits that are accrued in addition to retirement pay benefits. An entity will measure these benefits using the best estimate of the expense that will be incurred for settling the obligation on the reporting date. If these benefits are expected to be settled longer than 12 months after the end of the reporting period, they will be measured at present value.

NOTES TO FINANCIAL STATEMENTS

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31,	
	2019	2018
	NIS in thousands	
Cash in Israeli currency	38,152	37,179
Cash in Dollar	10,772	9,686
Cash in Euro	6,829	1,861
Cash in other foreign currencies	123	878
	<u>55,876</u>	<u>49,604</u>

NOTE 4:- SHORT-TERM INVESTMENTS

	December 31,	
	2019	2018
	NIS in thousands	
Marketable securities:		
Deposits *)	42,476	60,027
Shares	26,773	21,913
Debentures	20,874	13,322
Participation certificates in mutual funds	4,559	4,809
	<u>94,682</u>	<u>100,071</u>

*) The deposits bear annual interest ranging between 0.5% and 3.1% (in 2018 – 0.263%).

NOTE 5:- ACCOUNTS RECEIVABLE

	December 31,	
	2019	2018
	NIS in thousands	
Employees	1,654	1,730
Trade receivables	504	491
Prepaid expenses	419	359
Customer advances	13	254
Current account - Sulamot Program	-	976
Other	83	222
	<u>2,673</u>	<u>4,032</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6:- LONG-TERM INVESTMENTS

Long-term investments constitute investments in foreign securities, a U.S. real estate fund and Israeli limited partnerships that are all presented according to the cost model.

The Orchestra has investment commitments based on the following agreements:

Investment in Yesodot C Real Estate and Development Limited Partnership ("Yesodot C") – in 2019, the Orchestra entered into an agreement with Yesodot C according to which the Orchestra will become a limited partner in Yesodot C for a period of seven years. The Orchestra committed to invest an amount equivalent to NIS 15 million in Yesodot C. As of December 31, 2019, the Orchestra has invested an amount of approximately NIS 212 thousand.

Investment in Afik 1 Limited Partnership ("Afik 1") – in 2019, the Orchestra entered into an agreement with Afik 1 according to which the Orchestra will invest in Afik 1 an amount equivalent to US\$ 2 million based on the capital raised by Afik 1. As of December 31, 2019, the Orchestra has invested an amount of approximately NIS 1.16 million.

NOTE 7:- INVESTMENT IN ASSOCIATE

- a. Composition of the investment account in the Charles Bronfman Auditorium:

	December 31,	
	2019	2018
	NIS in thousands	
Share capital and share premium	110,534	97,920
Payments on account of shares	-	8,846
	<u>110,534</u>	<u>106,766</u>
Orchestra's share of accumulated deficit	<u>(35,752)</u>	<u>(30,429)</u>
	<u><u>74,782</u></u>	<u><u>76,337</u></u>

- b. During July 2000, the Board of the Friends of the Israel Philharmonic Orchestra approved the transfer of the right to membership in the Charles Bronfman Auditorium Ltd. ("the Auditorium") to the Orchestra. Accordingly, the Orchestra holds 50% of the rights to the Auditorium.

The investment in the Auditorium is presented on the basis of 50% of the rights to the shareholders' equity of the Auditorium including adjustments to reflect the Orchestra's future commitments to finance the renovation of the Auditorium.

NOTES TO FINANCIAL STATEMENTS

NOTE 8:- FIXED ASSETS

2019

	Building and leasehold improvements	Musical instruments	Computer systems	Office furniture and equipment	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2019	490	3,420	4,872	799	9,581
Additions	8	384	49	65	506
Disposals	-	23	-	-	23
Balance at December 31, 2019	498	3,781	4,921	864	10,064
Accumulated depreciation:					
Balance at January 1, 2019	131	2,275	4,390	501	7,297
Additions	50	278	386	43	757
Disposals	-	23	-	-	23
Balance at December 31, 2019	181	2,530	4,776	544	8,031
Depreciated cost at December 31, 2019	317	1,251	145	320	2,033

2018

	Building and leasehold improvements	Musical instruments	Computer systems	Office furniture and equipment	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2018	422	2,841	4,827	777	8,867
Additions	68	579	45	22	714
Balance at December 31, 2018	490	3,420	4,872	799	9,581
Accumulated depreciation:					
Balance at January 1, 2018	85	2,095	3,998	462	6,640
Additions	46	180	392	39	657
Balance at December 31, 2018	131	2,275	4,390	501	7,297
Depreciated cost at December 31, 2018	359	1,145	482	298	2,284

NOTES TO FINANCIAL STATEMENTS

NOTE 9:- TRADE PAYABLES

	December 31,	
	2019	2018
	NIS in thousands	
Open balances	703	547
Checks payable	1	6
	<u>704</u>	<u>553</u>

NOTE 10:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2019	2018
	NIS in thousands	
Accrued expenses	4,078	3,577
Employees and payroll accruals	1,833	1,948
Liability to event producers	1,417	-
Accrued vacation	1,125	1,059
Current maturity of reserve for payments to pensioners (see also Note 12)	435	517
The American Friends of the Israel Philharmonic Orchestra	-	212
Other	687	477
	<u>9,575</u>	<u>7,790</u>

NOTE 11:- DEFERRED REVENUES

	December 31,	
	2019	2018
	NIS in thousands	
Deferred revenues from concerts	22,926	22,074
Less - balance with credit card companies	2,149	1,993
	<u>20,777</u>	<u>20,081</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 12:- ACCRUED SEVERANCE PAY, NET

- a. Composition:

	December 31,	
	2019	2018
	NIS in thousands	
Accrued pension and compensation (b)	513	868
Less - amounts funded	973	1,154
	<u>(460)</u>	<u>(286)</u>
Accrued payments to pensioners (c)	1,122	1,602
Less - current maturity	435	517
	<u>687</u>	<u>1,085</u>
	<u>227</u>	<u>799</u>

- b. The Orchestra generally makes contributions to the Central Pension Fund to cover severance pay and pension liabilities to its employees in respect of part of the salary components. Additionally, the Orchestra makes supplementary contributions to provident funds and insurance companies to cover severance pay and pension liabilities in respect of the remaining salary components. Since 2004, the Orchestra applies section 14 to the Severance Pay Law in respect of part of the compensation deposited with a pension fund.

The Orchestra evaluates balances in the Central Pension Fund using interest at the rate of 3% plus the change in the Israeli CPI.

The accrual and amounts funded do not include amounts deposited in funds in the name of employees.

- c. The Orchestra is committed to pay monthly payments to several disabled former employees until they reach the age of 67. The payments flow was capitalized at the annual interest rate of 2%.

NOTE 13:- OTHER LIABILITIES

The liabilities arise from royalties received for recordings made by the Orchestra whose designation has not yet been determined.

NOTES TO FINANCIAL STATEMENTS

NOTE 14:- CONTINGENT LIABILITIES

- a. At the end of 2011, a claim pursuant to Article 197 to the Planning and Building Law, 1965 was filed against the Tel-Aviv local planning and building committee and the Orchestra by apartment owners for the impairment of their apartments following the approval of the Philharmonic Orchestra Complex plan on the Orchestra's real estate. Based on an appraisal, the amount of the claim is approximately NIS 6 million.

In 2012, the Tel-Aviv local planning and building committee dismissed the apartment owners' claim. This decision was appealed to the Compensation Appeals Committee. On May 27, 2020, a petition was filed for issuing a decision in the appeal. In the opinion of the Orchestra, based on its legal counsel, it is difficult to assess the decision of the Appeals Committee and therefore no amount for covering the claim was provided in the Orchestra's books.

- b. In November 2017, a class action was filed against the associate in the matter of noise nuisances arising from the unloading and loading of equipment for shows. The petitioner estimates the amount of the claim at approximately NIS 350 million. The associate argues that it is not responsible for this claim. Several meetings were held between the parties in the course of 2019 which have not yet yielded any agreement. At this stage it is difficult to assess the chances of the claim. Accordingly, no amount was provided in the associate's books for covering the claim.
- c. In July 2017, a class action was filed against the associate in the matter of the Disabled Parking Law, 1993. The petitioner estimates the amount of the claim at approximately NIS 3.5 million. A preliminary court hearing was held in which a settlement agreement was reached whereby the associate undertook to finance the disabled parking costs at the Auditorium from the date of approval of the settlement agreement. In 2019, the associate accepted another undertaking whereby it will donate 50 tickets to events held at the Auditorium. In January 2020, the Court issued a verdict which approved the settlement agreement.
- d. In April 2019, a claim of NIS 1.35 million was filed against the associate by a former employee pertaining to termination of the employee's employment in February 2019. A letter of defense has not yet been submitted. A pretrial hearing is scheduled for June 25, 2019. Based on the opinion of the legal counsel handling the claim and for caution sake, a provision of NIS 282 thousand was recorded in the associate's financial statements.

NOTE 15:- SALE OF THE GUESTHOUSE BUILDING

On January 8, 2015, an agreement was signed for the sale of the guesthouse building owned by the Orchestra ("the agreement"). According to the decision of the Orchestra's management from October 8, 2015, the gain from the sale of the guesthouse will be used to secure the economic future of the Orchestra. Accordingly, this amount was included in net assets used in operations designated by management.

NOTES TO FINANCIAL STATEMENTS

NOTE 16:- REVENUES FROM CONCERTS

	Year ended December 31,	
	2019	2018
	NIS in thousands	
Series for subscribers in Tel-Aviv	22,932	23,217
Series for subscribers in Haifa	2,919	3,019
Series for subscribers in Jerusalem	1,383	1,446
	<u>27,234</u>	<u>27,682</u>
Single tickets and programs in concerts for subscribers in the three cities:		
Single	9,054	8,889
Programs	<u>575</u>	<u>761</u>
	<u>9,629</u>	<u>9,650</u>
Special concerts:		
Tickets and programs	<u>4,350</u>	<u>3,747</u>
Recordings and others	<u>17</u>	<u>4</u>
	<u><u>41,230</u></u>	<u><u>41,083</u></u>

NOTE 17:- REVENUES FROM APPROPRIATIONS, DONATIONS AND OTHER

	Year ended December 31,	
	2019	2018
	NIS in thousands	
Ministry of Culture	10,302	10,420
The American Friends of the Israel Philharmonic Orchestra	6,496	7,502
The Israel Philharmonic Orchestra Foundation	6,300	7,420
Various donors	751	258
Field Foundation	736	-
Capital gain	42	-
Revenues from rent and other	<u>44</u>	<u>100</u>
	<u><u>24,671</u></u>	<u><u>25,700</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 18:- CONCERT PERFORMANCE EXPENDITURES

	Year ended December 31,	
	2019	2018
	NIS in thousands	
Selling, advertising and public relations	9,373	9,543
Conductors, soloists and choirs	7,181	9,151
Maintenance, stage, rent and other	5,421	2,387
Salaries and payroll accruals	4,393	3,963
Special concerts and additional musicians	3,287	2,886
	29,655	27,930

NOTE 19:- ADMINISTRATION EXPENDITURES

	Year ended December 31,	
	2019	2018
	NIS in thousands	
Salaries and payroll accruals	2,436	2,499
Depreciation	479	317
Rent and maintenance *)	410	372
Professional services	355	462
Other	30	39
	3,710	3,689

*) These expenditures take into account support of the Tel-Aviv Municipality through discount in municipal taxes which amounted to NIS 135 thousand and NIS 134 thousand in 2019 and 2018, respectively.

NOTE 20:- TAXES ON INCOME

The Orchestra was recognized a "public institution" as defined by the Income Tax Ordinance pursuant to sections 9(2) and 46. The Orchestra is a not-for-profit organization according to the VAT law.

- a. Payroll tax imposed according to the VAT law is included in payroll expenses. Nonrefundable VAT paid for inputs is included in the items of expenses or assets in respect of which the tax was imposed.
- b. Taxes for certain expenses (surplus expenses) are included in the items of expenses or assets in respect of which the tax was imposed.

NOTES TO FINANCIAL STATEMENTS

NOTE 21:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

- a. Balances with related parties:

	December 31,	
	2019	2018
	NIS in thousands	
Investment in associate (see also Note 7)	74,782	76,337
Current account – Sulamot Program	-	976
Accrued expenses	120	-

- b. Transactions with related parties:

	Year ended	
	December 31,	
	2019	2018
	NIS in thousands	
Revenues from operations	7,907	9,617
Expenditures	4,200	2,957
Orchestra's share of losses of associate	3,390	4,457

As for information about donations, appropriations and grants in material amounts, see Note 17.

- c. In April 2018, the Orchestra entered into an agreement with The Israel Philharmonic Orchestra Foundation (PBC) (a related party) regarding operating procedures and settlement of accounts between the Orchestra and Foundation.

NOTE 22:- EVENTS AFTER THE REPORTING PERIOD

In December 2019, the world experienced the outbreak of the Coronavirus (Covid-19) which began in China and later spread to many other countries around the globe, including Israel. On March 11, 2020, the World Health Organization declared the Coronavirus outbreak a pandemic. Following the outbreak, many countries including the Israeli Government began taking various measures for preventing the spread such as restricting civilian travel and social gatherings, minimizing cultural and leisure activities etc. As a result of the Government's guidelines, the Orchestra was forced to suspend its operations. In June 2020, the Orchestra resumed partial operation in keeping with Government guidelines. Following a second outbreak of the Coronavirus and the new restrictions imposed by the Government, the Orchestra again suspended its operations in early July 2020.

As a result of the above, the Orchestra's operations and revenues have been significantly impaired from March 2020.

As part of the steps adopted by the Orchestra for contending with the Coronavirus crisis, it was decided to implement entity-wide salary curtailments of at a rate of 15% effective from April 2020 and discontinue contributions to the advanced study fund. It was also decided to require certain employees to take unpaid leave of absence.

After the reporting period, as a result of the Coronavirus crisis and its impact on capital markets, there were major declines in the quoted market prices of investments in marketable securities which are likely to increase or decrease based on capital market developments. Any impairment of investments will be included in the Orchestra's annual financial statements for 2020.

The Orchestra's management believes that the above has no effect on the Orchestra's ability to meet its entire liabilities.
